MARKET OVER THE NEXT FORTNIGHT? ★


# The MAGAZINE of WALL STREET

and BUSINESS ANALYST

AUGUST 31, 1957 85 CENTS


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## and BUSINESS ANALYST

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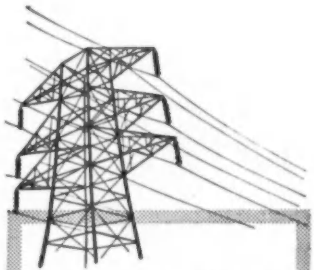
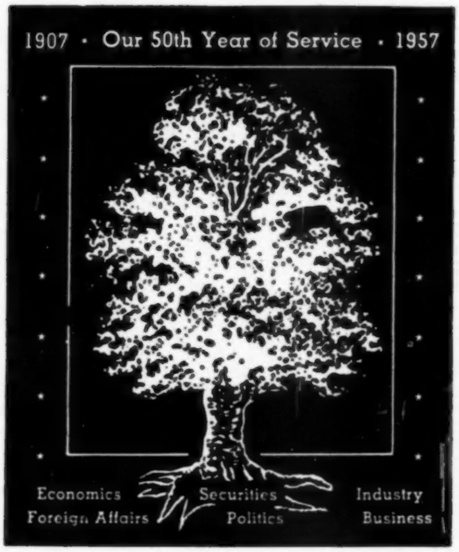


# THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*


# The Trend of Events

**REUTHER'S PIG IN THE POKE** . . . Walter Reuther's plan to level off prices and wages is a jug-handled proposition. Management has been offered the slippery side where there's no place to grab.

Reuther wants auto manufacturers to cut prices $100. Then, the arrangement goes, the UAW will not claim the *utterly impossible* in the new wage contracts, but will settle for the *impossible*. The Union goes on record for nothing—no quid pro quo. It will take into consideration, it says, the fact of reduced prices of cars to place them within reach of the consumer. But there has been no retreat from the 4-day week with 5-day week pay demand.

With steel up and wage demands becoming more difficult, the companies were quick to reject this pig in the poke and assert their sole authority to set prices. Reuther is weeping for the consumer, but the offer might have come from the ghost of Sam Gompers: it puts the onus on employers to solve our economic ills.

**IN MEMORIAM** . . . Senator Byrd has found himself the victim of his own committee. The Senator started with the idea of breaking down the operations of the monetary system into all its pieces, finding where friction existed or the machinery was being propelled off center, and then putting it together again with repairs and new parts. Without doubt, the Virginian believed this could be done within the sound money framework. His late colleague, Senator Carter Glass, had carried out a similar undertaking 40 years ago and the Federal Reserve System came into being. At no time did Byrd speak out against the Fed or hint fundamental overhaul: he said and reiterated only that a complete study had waited too long.

Actually, the committee had one objective: curbing inflation. Byrd always has held that sound money is the cure-all. But he found himself surrounded by colleagues who think easy money is the answer. The hearings went on for weeks, devoted principally to fault-finding. At the helm were senators who seemed disinterested in cures and were guided by a single political motive: to prove that George Humphrey wasn't a competent Secretary of the Treasury and that he guided Eisenhower away from the path marked out in the GOP platform.

The inquiry was taken away from Rep. Wright Patman because it was thought he would draw and quarter the Fed and let it go at that—after, of course, putting in a plug for printing press money. The Senate moved fast, pre-empted the field and left Patman out. Congress might just as well have given the job to Patman. The inquiry lost its target, never achieved depth, became bogged in partisan politics. Byrd obviously sees no future in the study so the probe goes into mothballs until January.

***We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.***

**Soak-the-rich** tax advocates would be surprised to learn just how little the Treasury would collect if it confiscated the income—not merely taxed it—of all persons making $1 million or more a year. Internal Revenue Service data (see table on the next page) shows


BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: :1907—*"Our 50th Year of Service"*—1957

201 persons reporting $1 million-or-more income in 1954 the last year for which data are available.)

If the income of all persons having annual income of $500,000 or more were to be confiscated, 640 persons would be directly affected and the grab would produce only a fraction of one per cent of the Federal income tax collections for the year.

Drop back another bracket: individuals with annual income ranging from $100,000 to $500,000, and you add 18,070 persons; confiscate their entire annual income and add it to the seized incomes of those in the even-higher brackets, and the result is barely over one per cent of the Treasury's annual collection from income tax sources.

In fact, if everybody whose income is $10,000 or more annually were required to send every dollar they earn to the Treasury, the Government still would have to look elsewhere for more than 90 per cent of its income tax collections.

The figures in the table tell their own story. Despite the restrictions the tax structure places on capital acquisition by individuals, a reduction in taxes for the upper brackets is politically impossible without also lowering the rates for everyone. And this the Government can't afford.

**Income Tax Payers by Classes**

| *Adjusted gross income classes* | *Returns* *Number* | *Precent of total* |
|---|---|---|
| Under $5,000 | 41,711,417 | (1) |
| $5,000 under $10,000 | 12,466,268 | (1) |
| $10,000 under $50,0000 | 2,039,909 | 0.1 |
| $50,000 under $100,000 | 70,400 | 3.6 |
| $100,000 under $500,000 | 18,070 | 22.1 |
| $500,000 under $1,000,000 | 439 | 74.1 |
| $1,000,000 or more | 201 | (1) |
| Total | 56,306,704 | 100.0 |

1 Less than .05 percent.

**MOSCOW CALLS THE TUNE** . . . With the Communist coup in Syria, Russia has reaped her first important dividend in a two year concerted effort to become a major power in the Middle East. A Communist Syria places a true Soviet satellite within the West's lines of defense, and makes it clear once and for all that it is Moscow and its rapidly expanding power politics that is America's most important problem in the area.

Informed circles believe that back of the Communist plan is the subversion of Iraq and Lebanon—Syria's immediate neighbors, and the two staunchest allies of the West in the Arab world. The strong possibility also exists that an attack will be mounted on Israel to identify Communism with the one point on which the various Arab factions are in complete agreement.

But the most important danger is that Moscow's new Mediterranean foothold places her influence directly astride the vital oil pipeline link between Western Europe and the prolific Saudi Arabian and Iraqi oil fields. To appreciate Russia's new strategic position it is only necessary to recall the oil crisis of last winter which might have wrecked the European economy, had it not been for the American oil lift and the fortunate circumstance of unusually mild weather.

The situation is not desperate, however. For one thing, lacking a common border with her newest satellite, the Kremlin's degree of control over Syrian affairs is less awesome than it is over her absorbed satellites. For another, Iraq and Lebanon are the two Arab countries most likely to call on President Eisenhower to invoke his Middle East Doctrine should a real threat of armed aggression develop. Since the reduction of Syria was accomplished in the one way that precluded United States action, it is doubtful that either Russia or Syria will now provide us with an excuse for bringing the "Doctrine" into play. Furthermore Russia is keenly aware that Israel gave Egypt a thorough thrashing last winter despite Egypt's heavy arsenal of Russian arms. She is not likely to endanger her prestige again by subjecting Syria to similar humiliation, unless and until she is certain of victory.

And finally, there is hope in Syria's own history of political instability. Since gaining independence from Vichy France in 1945, a succession of military rulers have either been assassinated or driven into exile for fear of their lives—and undoubtedly the current clique looks carefully under the bed each night before retiring to a fearful sleep.

Thus, although the West has been dealt a blow in the Middle East, we are not without our own weapons. It must be remembered that earlier this year a well timed show of strength by the U.S. Sixth Fleet prevented a similar coup in Jordan, serving notice on both Russia and the Arab countries that we are ready and willing to act when we have the opportunity to do so.

Furthermore, most Middle East countries are thoroughly frightened by the specter of Communism in their midst. Therefore, a combination of autonomous Middle East action against Syria, either directly—or what is more likely—by quarantining that country, plus the Eisenhower Doctrine, may yet be able to eliminate or at least sterilize Moscow's new toehold.

But it won't be an easy job. The sudden arrival in Damascus of some thousand Soviet "technicians", the heavy shipment of Soviet arms to Yemen, and Moscow's solicitous support of the rebel leaders in Oman, are clear evidence that the USSR is more determined than ever to wrest this vital area from the West. It will require our combined best efforts to prevent them from doing it.

Once again, Russia has challenged the global plan for Western defense. Once again the West must prove itself capable of meeting the thrust, while keeping a damper on the constant threat of "little" wars which, as long as they smoulder, can flare up into a world-wide conflagration. —END

# *As I See It!*

By JOHN CORDELLI

## FULL EMPLOYMENT — FACT OR FANCY

The publicity given to the layoffs ahead in the aircraft industry and reports of spotty unemployment throughout the country, appear to have revived a pleasant fiction that the much-bandied term "Full Employment", connotes some sort of Federal guaranty, — whereas it is simply a national aspiration, nothing more.

With various sections of our economy beginning to feel the pinch of unemployment, there is bound to be an accelerated interest in the theory vs. realities of "full employment". In fact, the Pentagon directive to the aircraft industry to make a further cut in its payrolls and reduce the working force from 910,000 to about 800,000 has activated inquiries in Washington as to just what cushions actually exist.


*"Come on Back to the Trailer and Meet the Rest of the Family"*

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Of interest is the official Labor Department figures issued by the U. S. Department of Commerce, showing a total civilian and military labor force of 72,661,000 in June of this year compared to 69,430,000 at the same time last year — with the same source showing also a drop in manufacturing production employees to 12,935,000 from 13,108,000 a year ago.

Actually the government plans in existence consist of the skeleton of a public works program which could be dusted off if a recession of frightening proportions should set in: "made work" for the most part, but also consisting of delayed construction work.

But the misconception that an employable person who is without a job may, ipso facto, obtain employment under any machinery that exists today is a widespread, but dangerous error.

Under private contract, a limited number of workers have gained the protection of Guaranteed Annual Wage. Where in existence now, the plans usually insure 2,000 hours of employment or wages (approximately 50 forty hour weeks) during a 12-month period, for production workers with one or more years of seniority. Another plan guarantees 70 hours of pay per month to laid off workers who perform some service during the month, and 140 hour pay for those who perform no work at all during a month.

But this is all there is of guaranteed employment anywhere in the country. Many more employed persons have the benefits of unemployment compensation in amounts limited in dollars and tenure by the differing laws of the several states—*but there are about 12 million wage earners in the country not covered by any unemployment insurance plans whatsoever.* These include state and local government workers, those who toil with very small firms, domestics, farm workers and a few other classes.

In all, about 22 of each 100 gainfully employed workers are excluded, and those covered are assured limited income for only short periods of time. The President's Economic Report this year urged all states to up the period of payment to 26 weeks, but to date only six states compensate for that length of time or longer, the average weekly payment being $25.08, which means that many receive much less.

A few other workers have wage contracts calling for supplemental unemployment pay, to be added by management to the check paid out under Federal laws administered by the states, but even the Ford and GM contracts, the most important of this type, limit payments to 26 weeks.

Thus, not only is there no statutory insurance of Full Employment, as erroneously supposed by many, but also there is little cushion for the jobless under the unemployment insurance system, and as indicated above, none (*Please turn to page* 746)

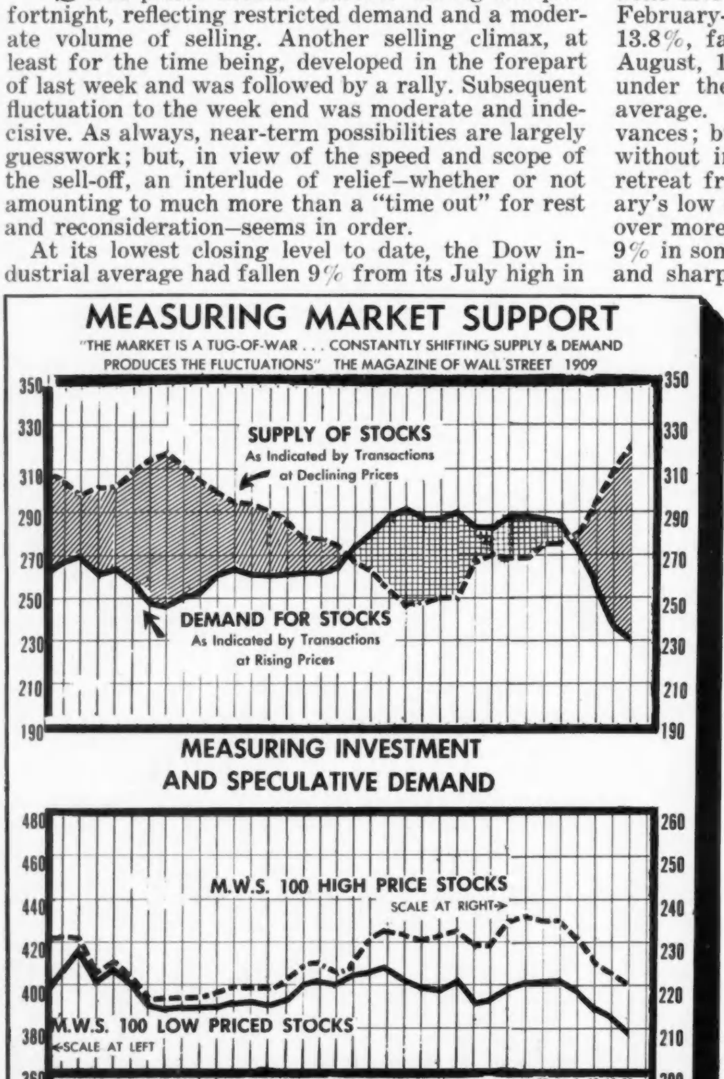
# Market Over The Next Fortnight?

**The market lacks a support base for anything better than trading-range rallies, which could defer a closer test of last February's lows perhaps for some days or weeks. We see nothing strongly bullish or bearish in the medium-term business picture. Communist moves in the Middle East are disturbing. Our conservative, selective investment policy is unchanged.**

**By A. T. MILLER**

Stock prices declined further during the past fortnight, reflecting restricted demand and a moderate volume of selling. Another selling climax, at least for the time being, developed in the forepart of last week and was followed by a rally. Subsequent fluctuation to the week end was moderate and indecisive. As always, near-term possibilities are largely guesswork; but, in view of the speed and scope of the sell-off, an interlude of relief—whether or not amounting to much more than a "time out" for rest and reconsideration—seems in order.

At its lowest closing level to date, the Dow industrial average had fallen 9% from its July high in little more than five weeks, cancelling 70% of the February-July upswing. The latter amounted to 13.8%, falling a fraction short of duplicating the August, 1956 top which, in turn, was just a hair under the April, 1956 bull-market peak for this average. Declines are generally faster than advances; but this one has been too fast to continue without interruption. For comparison, the zig-zag retreat from the August, 1956 high to last February's low amounted to about 12.7% and was spread over more than six months, against the above cited 9% in some five weeks in the present instance. Fast and sharp moves are uncommon. It is normal for the market to spend a goodly portion of each year in "killing time" while awaiting more light on prospects and some fresh impulse. Thus, if the February low is to be more closely tested or broken, that would seem a more likely development at some time in the autumn period, when business trends are clearer.

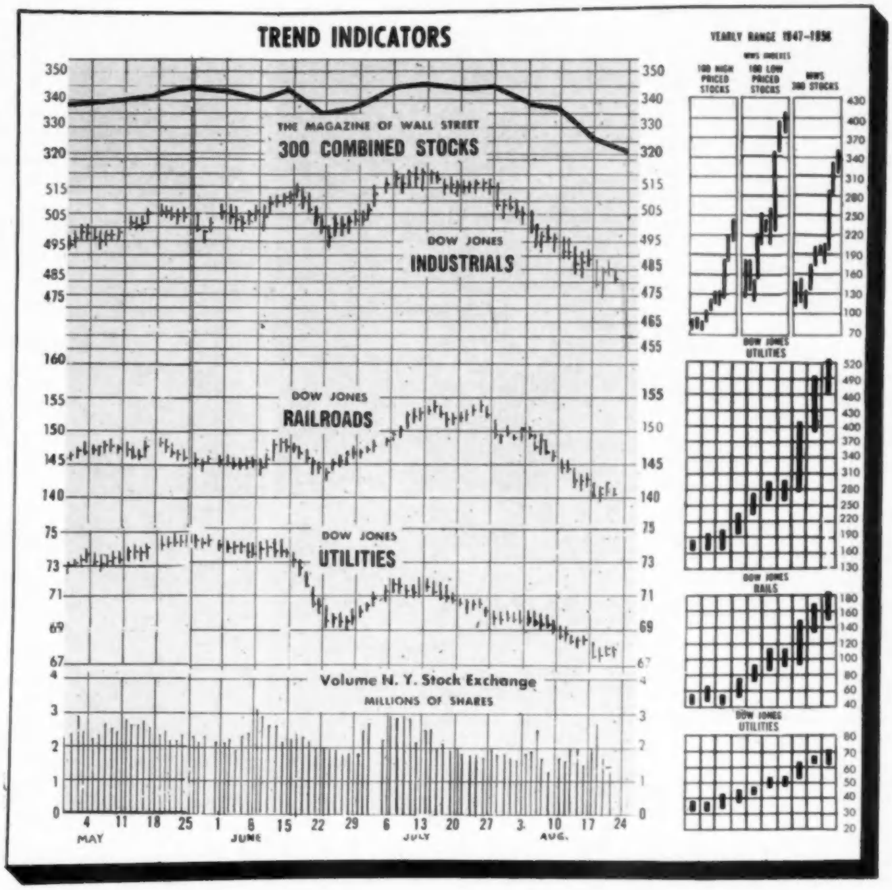



### Correction Already Substantial

At last week's poorest closing level the rail average had penetrated the February lows by a point, thus more than wiping out its entire upswing from that bottom. The latter obviously could be broken more readily than in the case of the industrial list. For the utility average, the decline from the May bull-market high has exceeded 9%, cancelling more than 70% of the phase of advance from an October, 1956 intermediate low. All in all, the market adjustment to higher money rates and to doubts about the business outlook has been substantial, as also has been the correction of July over-valuation of many popular stocks. It is proper to take note of that fact, and to avoid swinging over belatedly to extreme bearishness at this stage, even though there is no evidence to justify a contention that the maximum downswing has been seen.

Business activity has been on a high

plateau, with small month-to-month and quarter-to-quarter changes, for a long time. The same is so of total corporate earnings and dividends. Hence, at least in terms of any broad average of stock prices, we have had a moderate-range market for about two years, with investment sentiment blowing alternately hot and cold.




Each previous swing having been so largely psychological and technical, who can say on the evidence to date that this one is different? It is possible, of course, that the market has begun to discount a coming business recession and/or the development of some real trouble in the Middle East as a result of active anti-West meddling by Russia. But the market is made by people; and people can not see around the corner, either individually or in the aggregate. So it is equally possible, that this is another market adjustment of primarily internal origin, without prophetic significance for the economy. Time will tell, as fourth-quarter and early-1958 business prospects come into clearer focus. Meanwhile, it will be sensible, we think, to avoid jumping to dogmatic conclusions either way.

### Position Of Growth Stocks

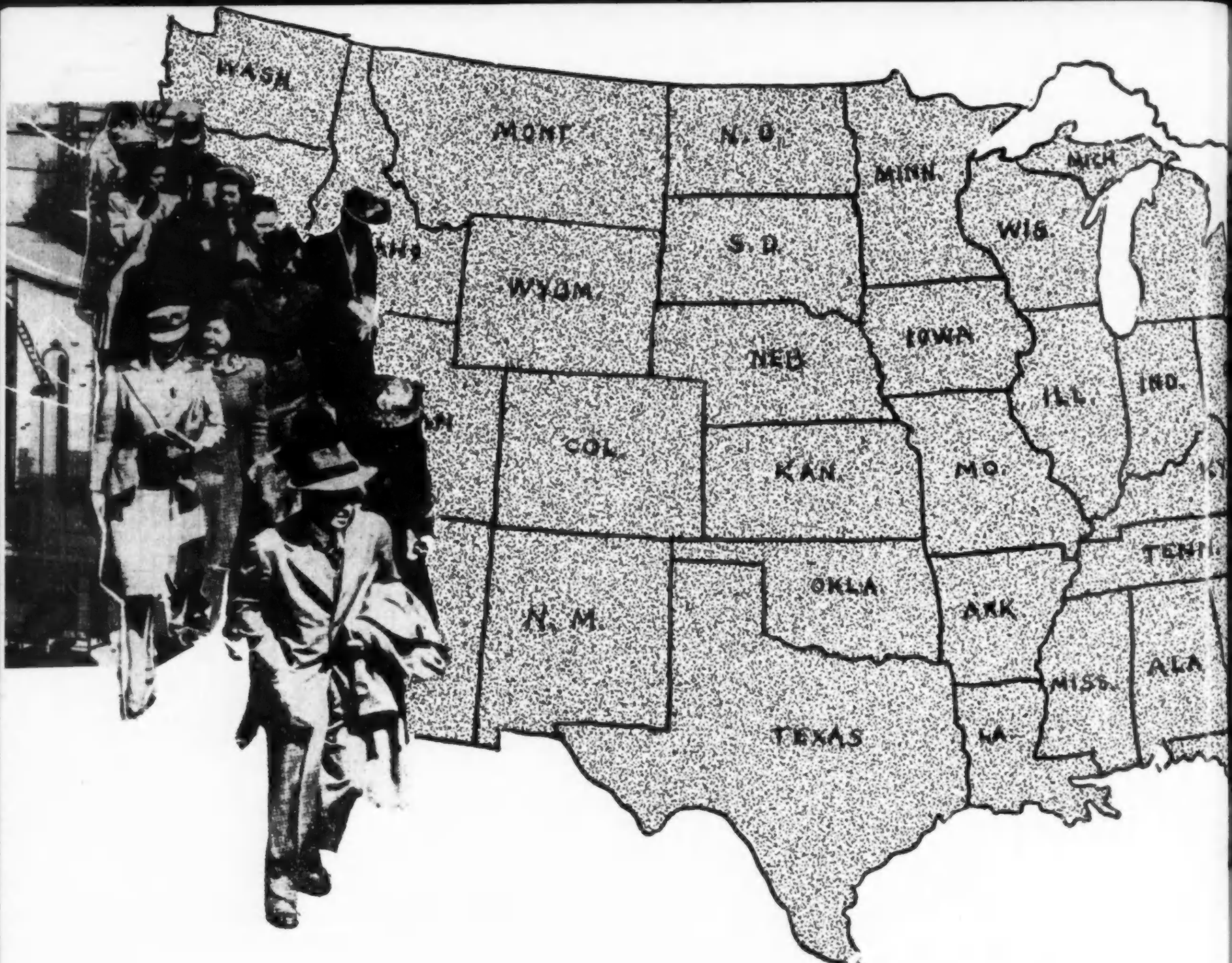
Relatively wide interim swings in popular growth stocks – and rotating stock-group leadership – have long been principal characteristics of this market. Already there have been percentage declines in many growth stocks ranging from twice to more than three times that by the industrial average. Examples include American Cyanamid, Eastman Kodak, Halliburton, Minneapolis-Honeywell, Minnesota Mining & Mfg., National Lead, Outboard Marine, Pfizer, Schering and various others. But recent and earlier over-exploitation resulted in cumulative excess which can hardly be said to have been more than partly corrected at the lows to date.

### No Leadership Emerging

Looking at the stock groups, one can see a basis, in lower earnings or orders or both, for pressure on a number, including air lines, coppers, appliances, machine tools and paper, among others. There are a number of defensive-type stock groups which do not appear subject to much change from present levels. What can not be seen is where strong, fresh upside leadership might emerge: the kind of leadership that the market had earlier, for example, from the oil and drug groups.

In market sentiment there has been a marked shift from emphasis on inflation to conjecture about business prospects. It is not due to any decisive change for the worse in the business statistics. Probably it is due largely to the publicly reiterated determination of the monetary authorities to continue a restrictive credit policy until inflation is checked; and to Administration support of the anti-inflation policy by continuing cutbacks and stretch-outs in defense procurement. In the past, official credit restriction has always eventually proved effective, usually with a considerable time lag.

Assuming that it will do so in the present instance, no strong rise in business activity is likely in the fourth quarter or in 1958. The alternatives are: (1) Continuation for a time of about the present level of production; and (2) at least a moderate business recession later on. The expected fourth-quarter pickup may be no more than mere seasonal expansion of automobile output. Total sales of retail stores have edged up modestly in recent months, in partial reflection of increased personal income and with the gain partly due to higher prices. However, sales of consumer durable goods have continued to lag, resulting in keeping the rate of personal savings at the highest level in some time. The capital goods boom is levelling out, and the trend of new orders has for some time been indicative of some dip ahead in heavy-industry activity. As an offset to the latter, much depends on whether we get significantly increased 1958 automobile (*Please turn to page* 746)




# The AWFUL PROBLEM of OVERLAPPING TAXES

## *Federal — State — Local*

**By JAMES BUTLER**

In the past five years there has been more intense effort than ever before to re-align tax areas, and responsibilities, between Federal and State Governments—but in the same period White House proposals for Federal aid-to-states doubled!

President Eisenhower took the leadership, at this year's Governors' Conference, to bring about redistribution along lines more clearly to delineate the zones of activity of Federal and State Government, appointing a Commission which went promptly to work on it.

And the new Secretary of the Treasury, Robert Anderson, by his attendance at the first meeting of the group, at Hershey, Pa., moved the subject to top priority on his list of things to be done.

Yet, in spite of these and other seemingly favorable signs, it's hard to find anyone in an informed position in the Capital who believes the declared goals will be approached, let alone attained.

The reasons are numerous, and interlarded into one another. In any one of several combinations, they can defeat the move. They range all the way from political patronage, to constitutional restrictions, to plain inability on the part of many states to assume the money responsibilities that go with "state's rights."

With further respect to the last-named of these problems, it is unlikely that the states and their sub-divisions will find enough cushion between present bonded indebtedness and statutory limits, to take on vast new projects or promptly assume costly undertakings financed wholly or in part by the Treas-


ury. This is additional reason why the discussions must be taken to look to a future development rather than to contemplate abrupt changes in Federal-State jurisdictions.

The cost of servicing the national debt will be a large item for many years. Even if ideal distribution of public functions were to be worked out overnight, the readjustment of tax areas would trail: sources the states and cities will need must be committed to payment of the national debt in many maturity years ahead.

Before the advent of the New Deal and its welfare and alphabetical agencies, state and city debt just about matched the national debt. Today the proportions are nearer to 85 per cent national, 15 per cent state and local.

When Secretary Anderson and other members of the President's commission met with the Governors at Hershey they reached what both emphasize is "initial" (not "tentative") agreement on sources Washington might relinquish to the states and cities. The list generally accords with the proposals of the U. S. Chamber of Commerce, discussed below. Major item should be local collection of telephone tax, $370 millions on the basis of this year's estimates and growing $30 millions annually. The other taxes initially marked for relinquishment and to establish a methodology for the changeover, aggregate $172 millions a year—a starting total of $542 millions.

In at least 13 major fields of Federal taxation there is overlap in which the Federal and the State or Municipal Governments levy on the same taxables. In the last fiscal year, the Federal Government collected $72,159 millions on this basis and states collected $14,644 millions; in fiscal 1955, municipalities collected $11,888 million.

Included was about $53,000 millions in individual and corporate income tax which Washington obviously will not give up in any redistribution; also there were state collections of sales taxes of about $8,000 million and property taxes of $10,000 million the cities and states aren't going to forego.

### Revisions Needed in Collection of Excise Taxes

Some areas are out of consideration as bargaining points: federal customs, local automobile licensing.

So the issue resolves itself mainly into a question of who should collect excises on motor fuel, alcoholic beverages, tobacco products, and some other selective sales taxes. Already all three governments—Federal, State, Municipal, take their toll. Excise tax is one of the areas of duplication in which Washington gets the lion's share. States and cities covet these sources; say they could carry on most of the projects now financed by Federal-aid, if they could get their hands on that money.

Alcoholic beverages, for example: Federal collections in 1956 fiscal year were $2,868 millions, against $542 millions for states and $20 millions for cities.

Tobacco: Federal, $1,613 million; state, $513 million; cities, $49 million.

States fare best in the gasoline tax department, collecting (in 1956) $2,683 million. But the Federal tax collector took more than $1 billion from the same source. Cities levied and collected $22 million.

If the Federal Government were to abandon these sources of taxation, the more obvious contributions by Washington to state and local operations could be taken care of at home. Federal payments to state and local governments are made principally through grants which require some matching expenditures by the other units of government. Additional payments are made in the form of shared revenue and loans.

In the fiscal year 1958, Federal aid to state and local governments is expected to be about 7 per cent of the Federal Government's total payments to the public from budget and trust funds.

### Where Federal Aid Goes

More than 60 per cent of the Federal grants to states and local cities will be made for two programs—public assistance and highways. Federal-aid highway grants also account for almost one-half of the estimated $1 billion increase in the total Federal aid spending from 1957 to 1958. Another $100 million of this increase results from the recent legislation which reduced the state share in the matching formulas used for public assistance grants.

During the current fiscal year, despite Congressional rejection of the school program, Washington will send $185 millions to state houses and city halls. The money is for schools in areas where Federal activities have greatly burdened school facilities and operations.

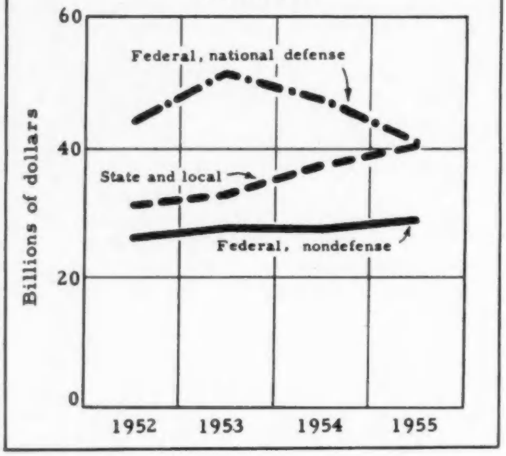
The welfare state idea runs deep into existing inter-government relationships. For instance, the Department of Agriculture doesn't deal only with farmers: it makes payments and grants-in-aid to schools, welfare departments, and other public agencies, partly in the form of surplus agricultural commodities.

Gross expenditures for grants and loans for low-cost housing, urban renewal, college dormitories, and community facilities will run to $683 million in the current fiscal year. This will be partly offset by collections of $406 millions from earlier loans.

The Commission on Intergovernmental Relations has proposed that the Federal Government make payments in lieu of taxes to local governments in areas where recent Federal acquisition of industrial and commercial property has created undue fiscal difficulties. Ike is on record in favor.

This suggests, but falls far short of describing,

**Fig. 1--GOVERNMENTAL EXPENDITURE 1952 TO 1955**




the scope of Federal intrusion into purely local functions. When President Eisenhower spoke to the Governors Conference at Williamsburg, Va., he mentioned there are many functions now performed by Washington that could better be handled by the states. He was suggesting that the states assume more of the responsibilities that are rightfully theirs and, at the same time, that they should channel into their own treasuries some of the money that now goes to Washington. Ike was on safe ground. No one quarrels with the premise; no one has come forward with a formula.

Some of the Governors and their legislatures are on record as willing to try. But whenever an aid bill is before Congress their full steam backs its approval.

Many of the roadblocks on the highway that go back to clearly differentiated state vs. federal function, are made in Washington. Bureaus beget bureaus and the established large and powerful Federal bureaucracy fights to the death to maintain itself in power. Programs that were instituted as emergency programs 20 years or more ago are still on the books, although the emergencies have passed. Much of the fault lies with Congress: political power goes with development and maintenance of the bureaus and the projects concerned. But the outside pressure groups are the most potent; they have their pet projects and bureaus which they regard possessively. It goes without saying that it is easier to lobby and pressure one Congress in Washington than to lobby and pressure 48 state legislatures and their governors.

### State Approval of New Federal Grants Suggested

Solution calls for the impossible: a holiday for politics. Congress must take the first step but the process has to be a gradual one, working conceivably through the recently appointed President's Federal-State Joint Action Committee. Several U. S. Senators are jointly sponsoring a resolution to make a start: it would require that any committee considering a bill calling for new or modified Federal grants-in-aid to the states, ascertain from the Governors and the legislative officers of the 48 states, their respective opinions as to (1) whether such federal aid is necessary because the particular service, function, or activity is essential and the states are unable to finance it, and (2) whether the states favor such aid being made available to them. Following receipt of such advise and counsel, the committee would be empowered to report the bill to Congress including a review containing the replies received from the states.

It requires more than passage of a bill or execution of formal documents to put an end to a practice as deep-rooted as Federal spending for non-Federal activities. Take public works for example. Construction for the Federal Government accounts for about 7.5 per cent of all new construction in the United States. Public works of the state and local governments *carried on with aid from the Federal government* represent another 5.5 per cent.

New Federal-aid highways will be the largest of the civil public works programs in fiscal 1958 but continued work on water resource development and other projects loom large.

Difficulty with one large class of expensive works —highways, water developments, bridges and some others—is that the construction and/or the operation is interstate in character. The job becomes more than a single state can handle financially, or should be expected to handle; and crossing a state line brings the commerce clause of the U. S. Constitution into play. In such situations, state compacts may be entered into between states, with approval of Congress. Port authorities are an example of the type of operation states can handle by compact without calling for Federal funds and inviting Federal control. An interstate highway or a bridge spanning a navigable stream and linking two states creates a situation in which Federal money and jurisdiction enters although the physical structures, the terminals, are on state land. One more thing for which Treasury revenues are essential, one more narrowing of the field of possible Federal taxing relinquishments!

### The Growth in Federal "Tax Take"

The imbalances and the results of obliteration of governmental responsibility are graphically illustrated in a study of the distribution of federal, state and local government tax receipts since the turn of the century. As growth of paternalism grew in Washington, and local communities sloughed off normal municipal activity, the Federal Treasury took more and more of the tax dollar; over the half-century period the sharings were almost exactly reversed.

For example, in 1902, the tax dollar divided this way: Federal, 37.5¢; state, 11.3¢; local, 51.2¢.

By 1952, the federal government was taking 75.5 cents, the state had been reduced to 13.3 cents, and the local share was 11.2 cents.

Later, a slight trend in the opposite direction appears. See accompanying Table on page 728.

In the 50-year evolution from 1902 to 1952, per capita payments experienced drastic changes: in 1902, each person paid on a per capita basis, a total of $17.75 of which the Federal government received $6.66, the state received $2.02, and the local government, because it met most of the citizen's needs, received $9.07. In 1952, the figures go-

ing into a $552.40 per capita total were: Federal, $416.66; state, $74; local $61.74. The disparity has increased in about the same proportion since 1952.

To illustrate how Federal tax receipts grew with expanding Federal responsibilities since the beginning of this century, Federal tax receipts increased about 14-fold while local taxes were doubling.

How deep a cut taxes have made into the net national product is made quite clear in a recent study indicating that all taxes took 10.7% of the 1929 net national product; in 1955 the percentage was 27.1 per cent. In those years the net national product grew from $95,819 millions to $359,522 millions. And these were the years which marked, first the gradual, then the precipitate, move enlarging the Federal share of the tax dollar, concurrently marking a rejection by states and cities of their normal municipal functioins.

Re-alignment is one of President Eisenhower's untackled "first order of business items" reported to Congress in his initial message on the State of the Union. He said then:

"The present division of activities between Federal and State Governments, including their local subdivisions, is the product of more than a century and a half of piecemeal and often haphazard growth. This growth in recent decades has proceeded at a speed defying order and efficiency. One program after another has been launched to meet emergencies and expanding public needs. Time has rarely been taken for thoughtful attention to the effects of these actions on the basic structure of our Federal-State system of government."

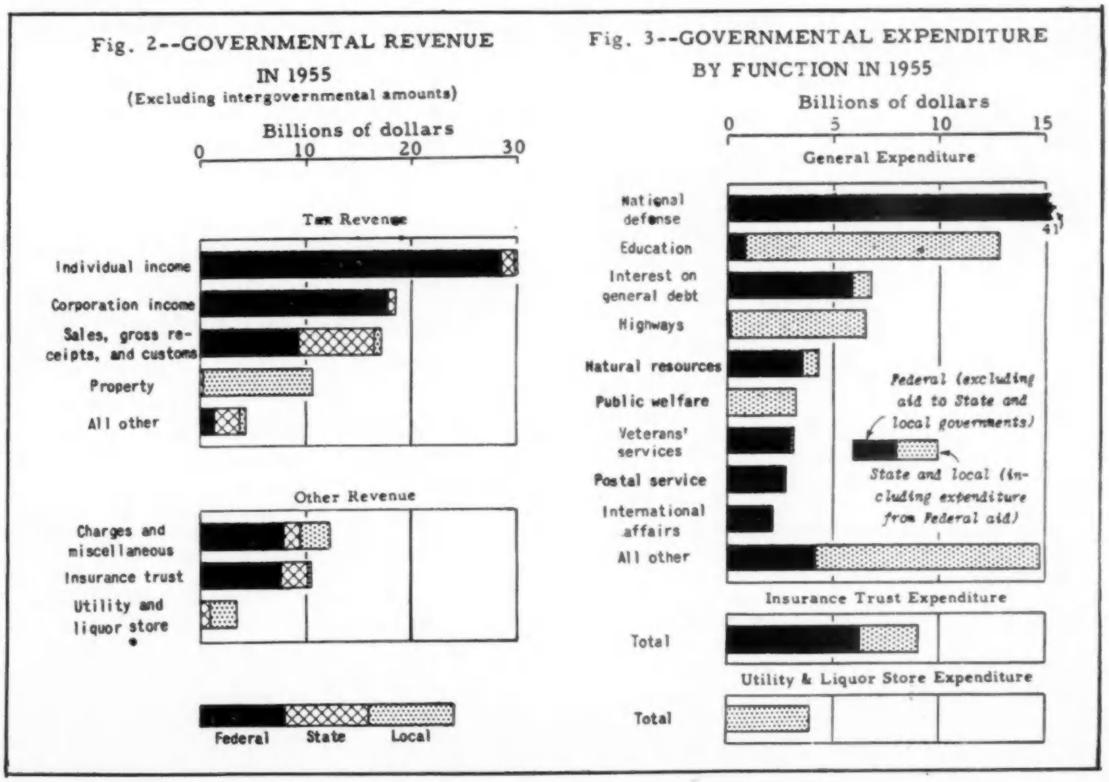
None of the study groups or individuals who have wrestled with the problem suggests that complete separation of all functions of government between federal and state is possible, practicable, or even desirable. But all agree that the present eminence of the United States in world leadership and diplomacy requires concentration apart from purely municipal affairs.

### Cause of Increase in Overlapping Levies

The overlap through the years and more particularly in recent times can be traced to new interpretations, in Congress and in the Supreme Court. The Constitutional mandate to "promote the general welfare" has been strained to sustain much of the welfare legislation; broadened court decisions on what constituted "interstate commerce" has obliterated basic and long observed lines of demarcation.

In the 1920's, U. S. Treasury direct grants to the states hovered around the $100 million-a-year mark and were confined to about 10 functions. About 75 per cent of this went to highways considered to be touched with a Federal interest because they were part of a growing (*Please turn to page* 728)

## A RECORD FOR THE LATEST YEAR AVAILABLE OF GOVERNMENT REVENUE AND EXPENDITURES



**EDITOR'S NOTE:**

**This feature is of timely importance as World Currency Revaluation will be the main topic of discussion at the International Monetary Fund Meeting in Washington from September 23rd to 27th. For further discussion of the various countries involved plus additional points on the French and German situation, see "Financial-Economic Trouble Spots Around the World", beginning on page 703.**

# What is Back of FRENCH — GERMAN CURRENCY MOVES?

**By JOHN H. LIND**

The French currency devaluation of August 11th made headlines throughout the world. But to those familiar with the European economic scene it hardly came as a surprise. It was only the logical sequence of internal and external events in France which had been in the making for well over a year. As such it was predicted several months ago by this magazine.

Since the end of 1955, France's imports have been growing, her exports have been declining, her reserves have been falling and her production costs have been increasing. For a while, France was able to get along quite well on the healthy savings she had piled up during her several fat years prior to 1956. In addition, her hard currency reserves were being replenished by U.S. defense expenditures in France within the NATO framework.

However, by spring of this year, it had become clear to all observers that France's foreign economic troubles were not temporary but stemmed from what economists call a "permanent disequilibrium". The only way to remedy such a situation is by reestablishing a new equilibrium, based on a more realistic exchange rate between the unbalanced

### *Trade Surpluses and Deficits of the German Federal Republic in relation to Countries of the E. P. U. Area[1])[2])*

(In millions of German Marks)

| Country or Group of Countries | Net Balance of Trade 1953 | 1954 | 1955 | 1956 |
|---|---|---|---|---|
| Austria | + 232 | + 446 | + 640 | + 608 |
| Belgium-Luxemburg | + 248 | + 485 | + 247 | + 752 |
| Denmark | + 350 | + 428 | + 142 | + 161 |
| France (including Saar) | + 52 | — 168 | — 406 | + 337 |
| Greece | + 26 | + 89 | + 69 | + 138 |
| Italy | + 496 | + 504 | + 423 | + 458 |
| Netherlands | + 387 | + 304 | + 198 | + 660 |
| Norway | + 335 | + 327 | + 255 | + 458 |
| Portugal | + 36 | + 138 | + 164 | + 215 |
| Sweden | + 327 | + 559 | + 663 | + 613 |
| Switzerland | + 470 | + 469 | + 407 | + 631 |
| Turkey | + 125 | + 53 | + 226 | + 125 |
| Indonesia | — 313 | — 233 | + 71 | + 118 |
| Sudan | — 56 | — 25 | — 13 | — 36 |
| United Kingdom | — 520 | — 667 | —1,502 | —1,368 |
| Other Sterling Countries | + 15 | + 91 | + 948 | +1,238 |
| E.P.U. Area Total | +2,210 | +2,800 | +2,532 | +5,108 |

1) Exports according to buying countries; imports according to selling countries. — 2) Including overseas territories.

country and the rest of the world.

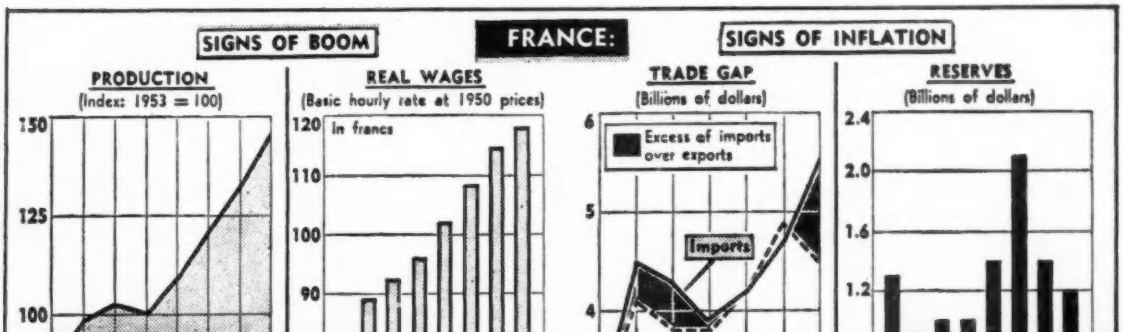
#### French Devaluation Only Partly Effective

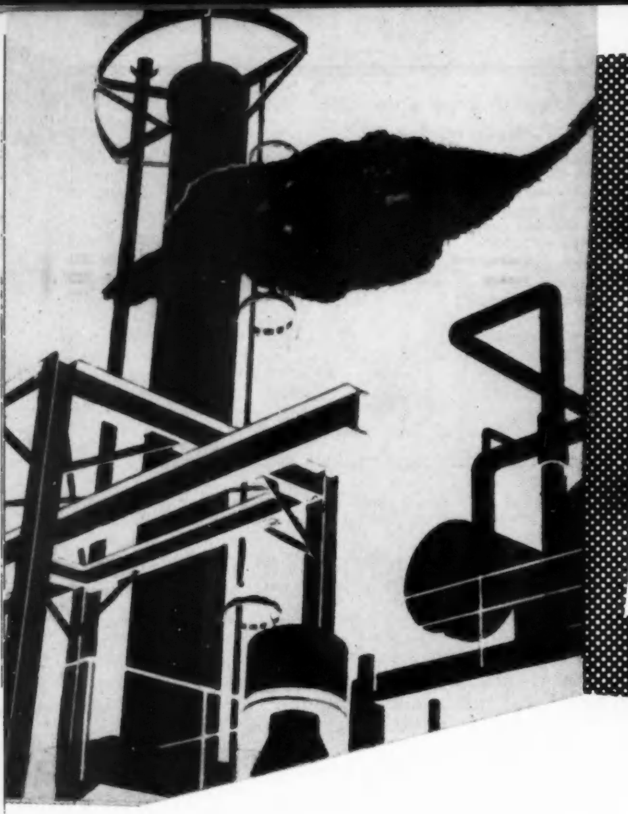
This is exactly what M. Felix Gaillard, France's dynamic young finance minister has attempted to do. The only question—and it is a major question—is whether he has really gone far enough in his action. Contrary to most newspaper headlines, the franc was *not* actually devalued, except for tourists and certain other transactions. As far as the country's foreign trade is concerned, about 40 percent of all imports (most fuels and basic raw materials) will continue to be imported as before, at the rate of 350 francs to the dollar. For the other 60 percent a 20 percent surtax has been established which will in effect amount to an increase in the exchange rate. However, since some surtax existed already before the recent "devaluation" the real effect of the new tax on imports will be equivalent to a devaluation of only about 15 percent. The same applies to French exports. The 20 percent surtax collected on imports will be used to give a 20 percent subsidy to all exporters, thus making their goods that much cheaper in international trade. However, here again, the existence of a small previous subsidy reduces the actual effect of the new action to no more than 15 percent.

Why has M. Gaillard chosen these indirect means to reduce the value of his currency, instead of devaluing it outright? One reason is that he wanted to avoid the drawbacks incidental to all devaluations, namely an inflationary increase in the cost of all imports. Unfortunately, in order to do this he has taken France down the road of multiple exchange rates and trade subsidies, just at the time when the Common Market, which is to do away with all such discriminations, is being ratified. Those who hope for greater freedom of exchange between the countries of Europe are bound to regard this as a step in the wrong direction.

#### France's Position at the Forthcoming IMF Meeting

But an even more important reason for his action is the meeting of the International Monetary Fund in Washington on September 23-27. The French Finance Minister is trying to go to that meeting with at least a semblance that the old franc parity is still standing and (*Please turn to page* 740)





PART II

# What Second Quarter Earnings Reports Reveal

*Looking to Year-end Prospects*

By HAROLD M. EDELSTEIN

It is interesting to note that the picture which emerges from total second quarter earnings reports continues the same trends we discerned in our analysis of the first 150 statements that appeared in Part I of this study in our August 3rd issue.

What pleased us greatly was the accuracy of our conclusions from only a limited sampling, and arrived at before full and complete reports were available.

On balance, sales are up for the majority of companies in most industrial groups, but the number of companies able to translate the increase into better earnings just about equals those which fell behind last year's second quarter. The stand-off provides an amazingly accurate picture of overall economic activity, and offers some real clues to the direction business activity will take in the latter part of the year, as well as the outlook for many individual companies.

That the economy is still rolling along at an exceptionally high level is apparent, since total profits for the second quarter ran about 3% ahead of the same period last year, but there is an indication of slowdown in the fact that the gain for the quarter is only about half as good as the advance for the full first half. The difference is explained, of course, by the exceptionally fine showing made by the oil, steel, machinery, automotive parts and electrical equipment industries in the opening quarter of the year.

But what is particularly important is the divergent earnings patterns for individual companies that are showing up within specific industries. Company fortunes are varying much more sharply than at any time in the recent past, and in most instances it is the larger, more efficient firms that are carrying the ball, while the marginal companies are falling further behind.

Illustrations can be found in almost every industry, but the relative position of the dominant versus the marginal units is perhaps best demonstrated in the still depressed textile group. There, **Celanese Corporation,** although still primarily a textile producer is making excellent strides in the chemical and plastics fields. A first quarter sales decline was reversed in the second three months and revenues advanced to $48.4 million from $45.9 million a year earlier. Margins slipped a bit, but earnings were unchanged from the 26¢ per share a year earlier, which must have pleased the company's management.

But Bigelow-Sanford, a major carpet manufacturer, trapped in one of the most depressed segments of a totally depressed industry, pinpoints the plight of the smaller units in the field. The company lacks the diversification of Celanese, and is subject to varying fluctuations that characterize the industry in which it operates.

Sales dropped 14% from last year's second quarter, to $18.2 million, but with cost relatively rigid, net income plummeted to 27¢ per share from 84¢ in the second quarter of 1956.

In general, the better performance records of the larger companies at this time is due to a number of individual reasons, such as their base of operations, their inter-industrial character, technological research and financial advantages. For example, in the building materials field where earnings were particularly mixed, **National Lead,** one of the nation's

## *Quarterly Sales, Profit Margins and Earnings of Selected Companies*

| | Second Quarter 1957 | | | First Quarter 1957 | | | Second Quarter 1956 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Net Sales (Millions) | Net Profit Margin | Net Per Share | Net Sales (Millions) | Net Profit Margin | Net Per Share | Net Sales (Millions) | Net Profit Margin | Net Per Share |
| Aluminium Ltd. | $110.7 | 10.4% | $0.39 | $122.8 | 12.1% | $0.50 | $122.5 | 11.7% | $0.48 |
| Amerada Petroleum | 28.7 | 24.0 | 1.09 | 32.7 | 26.7 | 1.39 | 24.4 | 24.3 | .93 |
| American Brake Shoe | 51.0 | 5.7 | 1.99 | 48.4 | 5.1 | 1.83 | 48.9 | 5.4 | 2.18 |
| American Machine & Fdry. | 66.9 | 3.7 | .75 | 58.9 | 5.8 | 1.06 | 47.0 | 4.0 | .66 |
| American Smelt. & Refining | 121.5 | 4.2 | .78 | 144.3 | 5.7 | 1.35 | 140.5 | 7.5 | 1.79 |
| American Tobacco | 270.3 | 4.7 | 1.87 | 245.2 | 4.1 | 1.43 | 274.1 | 4.8 | 1.93 |
| Armstrong Cork | 63.4 | 5.1 | .63 | 60.9 | 4.7 | .55 | 61.7 | 5.1 | .60 |
| Bendix Aviation | 194.7 | 3.6 | 1.40 | 185.4 | 3.7 | 1.38 | 149.1 | 3.4 | 1.08 |
| Bigelow-Sanford Carpet | 18.2 | 1.6 | .27 | 20.7 | 2.0 | .38 | 21.6 | 4.1 | .84 |
| Burroughs Corp. | 68.8 | 3.7 | .43 | 68.0 | 4.7 | .53 | 66.6 | 5.0 | .56 |
| Caterpillar Tractor | 185.3 | 6.8 | 1.40 | 186.6 | 7.8 | 1.60 | 183.8 | 8.5 | 1.74 |
| Celanese Corp. of Amer. | 48.4 | 5.5 | .26 | 46.8 | 6.2 | .30 | 45.9 | 5.9 | .26 |
| Cerro de Pasco | 20.8 | 3.3 | .40 | 19.2 | 5.9 | .66 | 17.7 | 7.4 | .80 |
| Chicago Pneumatic Tool | 22.8 | 11.7 | .63 | 22.7 | 13.5 | .72 | 21.4 | 11.9 | .60 |
| Coca-Cola | 46.3 | 20.0 | 2.19 | 34.6 | 15.2 | 1.24 | 43.7 | 20.5 | 2.11 |
| Columbia Broadcasting System | 90.8 | 4.6 | .56 | 95.9 | 6.1 | .77 | 85.8 | 1.0 | .11 |
| Crown Zellerbach | 116.6 | 8.0 | .65 | 110.7 | 8.5 | .66 | 115.3 | 11.6 | .90 |
| Curtiss Wright | 165.9 | 6.4 | 1.42 | 147.4 | 6.7 | 1.30 | 146.5 | 7.6 | 1.53 |
| Electric Storage Battery | 24.0 | 3.6 | .80 | 25.0 | 2.6 | .59 | 23.5 | 3.0 | .74 |
| Fibreboard Paper Products | 30.7 | 3.2 | .61 | 30.1 | 3.2 | .60 | 32.5 | 5.4 | 1.15 |
| Food Machinery & Chemical | 85.1 | 6.0 | 1.51 | 78.4 | 5.0 | 1.15 | 82.9 | 6.2 | 1.58 |
| Fruehauf Trailer | 61.1 | 1.3 | .12 | 59.6 | 2.3 | .20 | 77.4 | 3.4 | .43 |
| General Dynamics | 391.4 | 2.4 | 1.21 | 334.6 | 2.6 | 1.13 | 240.9 | 2.8 | .90 |
| Georgia-Pacific Corp. | 39.0 | 5.9 | .71 | 34.5 | 5.5 | .60 | 23.0 | 7.4 | .68 |
| Ingersoll-Rand | ..... | ..... | 1.53 | ..... | ..... | 1.48 | ..... | ..... | 1.51 |
| International Nickel | 113.5 | 19.4 | 1.51 | 109.9 | 21.3 | 1.61 | 114.3 | 22.0 | 1.69 |
| International Paper | 244.6 | 7.8 | 1.55 | 238.1 | 7.7 | 1.49 | 248.5 | 9.6 | 1.96 |
| Lily-Tulip Cup | 23.2 | 9.3 | 1.37 | 17.6 | 6.8 | .76 | 20.6 | 9.3 | 1.23 |
| Link-Belt | 45.2 | 6.3 | 1.54 | 41.7 | 6.1 | 1.37 | 42.3 | 6.7 | 1.56 |
| Minnesota Mining & Mfg. | 92.1 | 10.9 | .60 | 89.4 | 10.9 | .58 | 78.7 | 11.5 | .54 |
| Monsanto Chemical | 145.8 | 7.2 | .50 | 151.2 | 7.6 | .54 | 139.6 | 7.6 | .49 |
| National Biscuit | 105.7 | 5.0 | .76 | 102.0 | 4.6 | .68 | 100.9 | 4.7 | .61 |
| National Lead | 133.8 | 11.4 | 1.27 | 147.9 | 9.9 | 1.22 | 145.9 | 10.5 | 1.29 |
| National Steel | 166.4 | 7.5 | 1.70 | 176.8 | 7.6 | 1.82 | 177.0 | 8.3 | 2.01 |
| Olin Mathieson | 153.3 | 6.9 | .72 | 135.4 | 7.3 | .75 | 155.7 | 7.4 | .87 |
| Panhandle East. Pipe Line | 28.7 | 14.8 | .62 | 31.2 | 18.0 | .82 | 27.0 | 15.1 | .59 |
| Phelps Dodge | 77.4 | 16.3 | 1.25 | 83.5 | 17.8 | 1.47 | 124.4 | 20.6 | 2.53 |
| Pitney Bowes | 11.0 | 8.6 | .71 | 11.3 | 8.4 | .71 | 10.3 | 8.9 | .70 |
| Pittston Co. | 57.6 | 3.7 | 1.72 | 93.9 | 2.6 | 2.06 | 49.3 | 1.6 | .84 |
| Republic Steel | 338.2 | 7.3 | 1.60 | 354.4 | 7.9 | 1.81 | 351.4 | 7.5 | 1.71 |
| Robertshaw-Fulton Controls | 18.3 | 6.3 | .71 | 19.6 | 7.0 | .84 | 17.6 | 5.8 | .69 |
| Shell Oil | 437.7 | 7.7 | 1.12 | 467.2 | 8.8 | 1.37 | 394.1 | 8.7 | 1.14 |
| Square D Co. | 25.7 | 7.5 | .38 | 25.1 | 10.0 | .49 | 25.1 | 11.0 | .55 |
| Standard Brands | 126.1 | 2.6 | .95 | 129.3 | 2.7 | 1.05 | 111.2 | 2.7 | .89 |
| Stauffer Chemical | 42.2 | 9.5 | 1.17 | 37.0 | 8.1 | .90 | 42.7 | 9.4 | 1.17 |
| Sterling Drug | 45.3 | 8.7 | .50 | 49.3 | 9.7 | .61 | 43.6 | 8.9 | .50 |
| Sunbeam Corp. | 26.4 | 7.0 | .60 | 23.7 | 9.8 | .73 | 25.7 | 6.0 | .58 |
| Union Carbide | 339.0 | 10.0 | 1.13 | 351.3 | 10.1 | 1.18 | 319.6 | 11.0 | 1.17 |
| Yale & Towne Mfg. | 33.2 | 3.6 | .54 | 32.5 | 4.6 | .70 | 31.0 | 4.2 | .70 |
| Zenith Radio | 29.8 | 2.5 | 1.52 | 36.6 | 4.5 | 3.35 | 27.4 | 2.5 | 1.42 |

100 largest corporations was able to better its earnings despite an 8% drop in sales. Second quarter revenues were $133.8 million against last year's $146 million, but earnings edged slightly ahead to $15.4 million from $15.3 million last year. Per share net, reflecting adjustments was off 2¢ per share to $1.27, but the gain in net income in the face of declining sales speaks well for the company's high level of efficiency and special type of diversification.

On the other hand, take **Fibreboard Paper Products,** an aggressive, well run smaller company. From 1954 through 1956 earnings almost tripled from $1.30 per share to $3.80, while National Lead was scoring a lower percentage gain, excellent though it was, rising from $3.05 per share in 1954 to $5.23 in 1956—but this year Fibreboard is suffering typical smaller company difficulties. Sales eased a moderate 6% to $30.7 million, but net income tumbled 47% to 61¢ per share from last year's $1.15.

### Some Questions Concerning Profits

When the economy is booming along and companies are adding one new profit high after another, there is little incentive for subjecting corporate profits to microscopic study. But as the boom begins to flatten out it becomes important to look not only at profits but also at the various components of earnings to see if there are factors which are making comparisons look particularly favorable or unfavorable.

Inventory policy and the methods used for evaluating stocks on hand is one of the most important components to check carefully, for the treatment of inventories can tend to smooth out profits for many companies that might otherwise be showing poorer results. This is particularly important today, for if the inventory buildup noticed in the second quarter GNP figures is in fact, a backing up of finished products, then many companies will be faced with the problem of whether to value these stocks at cost or probable market price. The most conservative firms, and this includes most of the larger ones will use the "lower of cost or market" method, absorbing the losses as the market drops. But those using less conervative methods may be showing profits that can be translated into greater losses in the future, if there is no sharp pickup in overall demand later on in the year. Undoubtedly many firms are counting on just this pickup, but if it doesn't materialize, losses that belong in the second quarter may show up in fourth quarter adjustments, causing unlooked for declines in total profits for the year.

Another factor that is undoubtedly keeping reported profits higher for a number of companies is the radically changing depreciation patterns connected with the rapid amortization programs allowed by the government in recent years. Those companies that were granted certificates of necessity earlier have by now written off a goodly portion of their new facilities—and in many cases the increase in reported earnings may reflect nothing more than the decrease in depreciation charges against earnings.

The same is true, but to a lesser degree, for those who without certificates had to wait until the 1954 enabling legislation to effect fast write offs. With three years now behind them, the arithmetic of the depreciation schedules is beginning to catch up, leaving the lion's share of the benefits in the past.

**With the whole rapid amortization program due to end in 1959, those companies that have not taken immediate steps to replace facilities already written off, may find themselves with higher earning and tax liabilities at the very time when overall business activity is slackening off.**

Interim statements, unfortunately, do not generally offer enough information for evaluating these factors, making it all the more important to do so when year end statements are finally released. However, it should be emphasized that neither of these factors will bother investors too much if business stages a sharp upswing in the latter half of the year and in the opening months of 1958. But if it fails to surge, many firms may find themselves loaded with high priced inventories in addition to excess productive capacity.

### Overcapacity in Industry

So far, however, only a few industries are suffering any severe effects from overcapacity, but in these the impact is heavy. The paper and metal groups are currently two of the three most depressed industries in the economy, that we saw in the making and called attention to for some time back. Both are temporarily overloaded.

In the non-ferrous metals group, this overcapacity has been accompanied by a sharp drop in many metal prices and a doubtful price structure for others. On the extreme end of the scale, **Phelps Dodge** throws the plight of the copper producers into sharp focus. Despite its reputation for operational efficiency, sales spilled to $77 million in this year's second quarter from $124 million a year earlier. Profit margins narrowed from last year's high levels and net income tumbled to $1.25 per share from $2.53 in the second quarter of 1956.

Similarly, **American Smelting & Refining,** one of the industry's principal smelters, reflected general metal market conditions in its sharp earnings decline to 78¢ per share from $1.79 a year earlier.

The aluminum producers also had their profit margin troubles despite a stable price level. **Aluminium, Ltd.,** scored a sharp gain in this year's first quarter over the depressed first quarter of 1956, but the company was not able to carry the advances through the second three month period. Sales figures have not been released, but the tale is told in the 25% drop in per share net of 39¢ per share from 48¢ last year. This may be temporary, – and depends on whether the industry can maintain the recent one cent per pound price increase.

### Most Industries Not Depressed

The paper industry is in roughly the same boat, although price declines have not been as deep as in the metal trades. **International Paper,** by far the largest member of the industry, continued production at high levels during the second quarter, but percentage of capacity operations declined. Prices generally remained firm but sales eased to $482.8 million for the half from $491.1 million in the first half of 1956. The small 2% decline in sales however, in combination with higher costs resulted in a drop in net earnings to $3.04 per share from $3.86 in last year's first half. This is one of the strongest and best managed companies in the country.

Unlike those mentioned, however, most industries are not depressed. They are just not progressing as fast as they were in the recent past, and the blessings of prosperity are not being spread as evenly among all members of an industry. The keen competitive struggle is taking its toll and will probably become more severe in the future, especially in those industries where the near term outlook is not as good as present operating and profit levels might indicate. In the machinery and tool sector, for example, companies are generally doing well now, but the impact of declining orders is still to be felt. Still, there are companies whose outlook is better than average for their industry.

**American Machine & Foundry** finds its backlog of orders climbing while most of the industry is declining. Now active in atomic energy, liquified petroleum products and electronics, the company seems to have stabilized its sales base. Furthermore the rapid growth of its automatic pinspotting machines for bowling alleys contributes important rental revenues. The rise in second quarter earnings to 75¢ per share from 66¢ is not nearly as significant as the basically stable outlook for the balance of the year.

Similarly, the automotive parts industry may be in for some radical changes before the year is out. With most of the auto companies retooling for new models, business is good now, but many of the firms have diversified heavily into the aircraft components field. Since the government's aircraft procurement cutbacks the future for many firms is more important than current earnings.

**Bendix Aviation** continued its excellent year to year growth with sales climbing to $195 million for the period from just under $150 million last year. Profit margins widened slightly and net income jumped to $1.40 per share from $1.08 in last year's second quarter. But with aircraft curtailment now a reality, the near term outlook has changed from clear to cloudy.

**Electric Storage Battery** remains closely tied to the automotive industry, however, and should continue to do well as long as Chrysler does. In the second quarter, profit margins widened for the company translating a small sales gain to better earnings progress. Net per share reached 80¢ from last year's 74¢ level and 59¢ in the first quarter of this year. The future must remain in doubt, however, until Chrysler demonstrates that it can hold the gains it made this year.

As pointed out in Part I of this report, other industries that are showing up well also have their worries for the balance of the year. The oils have their import problems, the steels the question of auto industry demand and the electrical equipments have their concern with a continued high level of capital expenditures.

## Diverse Earnings Within An Industry

Similarly, the outlook is mixed for industries with just average performances so far this year. The chemical industry turned around slightly in the second quarter, but results are still not spectacular, and company reports are highly mixed. **Union Carbide,** one of the majors in the field scored a $20 million sales advance over last year's second quarter, but earnings declined slightly to $1.13 per share against $1.17 last year. **Monsanto Chemical,** on the other hand, translated a small sales gain into a moderate one cent increase over last year's 49¢ per share earnings – and **Stauffer Chemical** managed to hold both sales and earnings on a par with last year's levels.

With prices stabilized now and some chances for increases later in the year, full year results for most chemical companies should compare favorably, or at worst just slightly below last year's figures.

Whether the same will hold true for the electrical equipment producers is more doubtful. Both GE and Westinghouse are performing well, but patterns are highly mixed in the rest of the industry.

**Square D,** a leading maker of control devices held its sales relatively stable, but start up costs of new plants cut heavily into profit margins, dropping earnings to 38¢ per share from 55¢ in the 1956 second quarter. **Robertshaw-Fulton,** however, without extraordinary expenses working against it, was able to show a small earnings advance from 69¢ last year to 71¢ in the quarter just ended, on sales of $18.3 million compared with $17.6 million last year—showing up today's narrowing range of profit.

With so much of the industry's business tied to industrial and utility expansion, the balance of the year is still clouded, however. Nevertheless, as a group, final results should not differ much from last year.

## Specialties Also Mixed

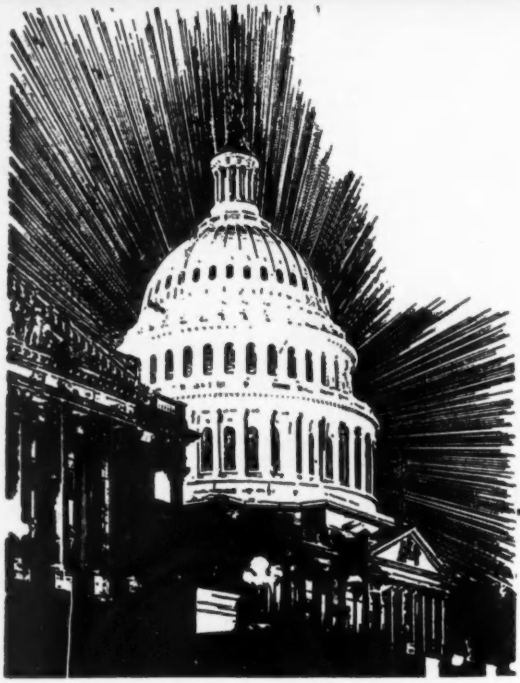
As if to mirror the general mixed state of the economy, specialty companies provide as divergent trends as every other segment.

**Fruehauf Trailer** still shows no signs of recovering from the precipitous earnings drop that set in about a year and a half ago. Sales dropped again to $61.1 million from $77.4 million last year, and earnings sank to their lowest level in many years at 12¢ per share against 43¢ last year. With little chance of sharp earnings recovery in the near future the company's $1.40 per share dividend must be considered in doubt.

**Food Machinery & Chemical,** a leading manufacturer of packaging machinery fits well within the "sales-up profits-down" category. Sales were $85.1 million in this year's second quarter against $82.9 a year earlier, but narrower margins in the chemical division and delays in some of its modernization programs reduced earnings to $1.51 per share from $1.58 last year.

**Minnesota Mining,** however, continued its consistent quarter to quarter upward performance. Sales climbed healthily to $92.1 million from $78.7 million in last year's second quarter, and earnings after heavy research and product development costs advanced to 60¢ per share from 54¢ in the second 1956 period. This stock which fluctuated between 58 and 101 this year is still selling at a very high price earnings ratio.

A number of improved reports are also found among the coal producers, although the heavy foreign demand has diminished from the feverish pitch of a few months ago. **Island Creek Coal,** the nation's third largest producer of bituminous coal continued its upward sales and earnings trend. Sales climbed moderately to $31.8 million from $29 million a year ago, and net income *(Please turn to page* 730)



# Inside Washington

By "VERITAS"

**NATIONALIZATION** of industry is taking another beating on the record of performance. As part of the program of the Labour Government, England set up the British Transportation Commission, a government operation. It is a monopoly, of course; it cannot point to destructive competition. But official records just released show that one-third of the traffic carried by the Commission is losing money. There is no prospect of improvement; the deficit operation is charged up to lack of know-how, rather than to the costs of changeover. While there is a strong movement for return to private enterprise, Labour doesn't want to give up.

### *WASHINGTON SEES:*

Relationships that existed between the White House and Congress in this year's session have underscored the un-wisdom of artificial limits on the tenure of the Presidency. Congress many years ago abandoned the "lame duck" session—which ran three months after each biennial election and included many Congressmen who had been defeated but enjoyed all the rights and powers of office until their successors took over, on March 4. They had lost influence, were unwanted by any bloc seeking insurance of parmanency, almost inevitably turned obstructionist, and certainly slowed the wheels of Government.

The Constitutional Amendment which placed a two-term limit on Presidential service makes a re-elected President a lame duck from the second term's beginning. Congressmen are aware that a record of consistent support for a departing President isn't a salable item at the voting booths; for example, Ike will not be running in 1960, his Administration and its objectives—its score-card—will be history. So the incentive to form and hold a solid phalanyx for legislative purposes is gone.

The legislative program suffered both in quality and in quantity. President Eisenhower was forced to shift position with such frequency and abruptness, that the session wound up with republicans frantically seeking coalition with democrats to try to get something, anything, done. In the process, the White House was ignored.

**"MOST CONSERVATIVE"** is the classification given by his colleagues to Rep. Ralph Gwinn of Westchester County, New York, who has a long record of service that stamps him as the member farthest from the left. This worries organized labor because Gwinn becomes ranking member of the House Labor Committee when Rep. Sam McConnell of Pennsylvania resigns next month, Chairman if the GOP takes control of the House in 1958. He's against minimum wage laws, Social Security, the school construction bill and described Federal-aid to States as a "fraud upon the taxpayers."

**LABOR RACKETEERING**—Actually organized labor has less to worry about from Representative Ralph Gwinn than they have from Hoffa and his coterie of henchmen, who are mulcting the worker through a technique of robbery that includes every known means. And what is more, these depredations have a chain effect by causing workers to pay higher prices for the goods they need and higher taxes because everything the government buys costs them more dollars every year.

**WARNING** that most American cities will be forced to ban downtown curb parking within the next 10 years, comes out of a survey by the National Parking Association. The report, which is likely to give jitters to department store operators, cites that the country now has 61 million cars on the road and the number will be 85 million by 1966. Stricter enforcement of parking time limits is booming the parking lot business: it was rated at $1 billion in 1946; now the investment is estimated at $4.5 billion.

# As We Go To Press

Reviewing the events of the 1957 Congressional session it is difficult to determine the pattern of control that will emerge although there are convincing signs of changes in the offing. Votes on civil rights, the school bill, and foreign aid, are most significant. Northwestern democratic liberals appeared to be in close alliance with southern democrats on civil rights -- a combination hard to understand initially. When a bloc of democrats from below the Mason Dixon strip joined with their new-found allies in voting for the Hells Canyon Dam, close to the hearts of the northwestern democrats, explanation seemed to be suggested. But there was vigorous denial of a "deal"; in fact both groups seem to protest too much!

If there is a mutuality coming into being (the word "deal" is resented), a coalition the past three Presidents have had to deal with is on its way out. Heretofore, republicans from the north helped the south block civil rights bills and in return received support for more conservative labor, welfare, and economic measures. President Eisenhower's school bill was killed on a motion to strike out the enacting clause and scores of republicans joined the democratic rush to the escape hatch opened by Rep. Howard Smith's motion. That's a tie-in that cut across party labels and deep-rooted ideologies.

Senator Lyndon Johnson has masterminded a new coalition but there is some doubt as to whether there is sufficient cohesive to hold it together. He withheld the jury trial amendment of the civil rights bill. When it was a take-it-or-leave-it decision, Johnson found a new coalition of southern democrats, the northwest liberals, some republican arch conservatives of the Goldwater and Capehart stripe, ready to take it. As a strategist, Senator Johnson has no peer in Congress. And with Senator Knowland, minority leader, casting his political eye in other directions, it's just barely possible the Texas Senator may hold the new combine together. If he can, he will emerge as a most potent figure on Capitol Hill.

The latest anti-Ike "line" is that he wants a national recession, a charge that is not worthy of such sophisticated inquisitors. Senate Finance Committee members have been throwing questions at Administration witnesses which seem to have no other logical objective. "Recession" is avoided in the conversations, but the Treasury and Agency people are being asked if what they are proposing does not have the effect, and purpose, of leveling down or rolling readjustment. Senator Robert Kerr of Oklahoma has bluntly put the question -- so bluntly that it rings more of a charge than an inquiry. But he would -- no man in Congress is more politically ambitious.

It is certain that mild drop in employment figures is not worrying Labor Secretary James P. Mitchell. Nor is it wrinkling Ike's brow. He has been turned down flatly by both management and labor on his suggestion that they mark time on price and wage increases - a voluntary adjustment to prevent trouble. The threat of unemployment has been effective in other years in achieving that goal.

One of the most amazing incidents in modern legislative history was scurrilous accusation by Senator Kerr against the President, that he is without intelligence on Federal fiscal matters. Only Senator Capehart (who isn't picked for the party's big defense jobs) had the spirit to reply. Everyone else was too shocked. Senator Kerr apparently chose to tag the President with Senator Harry F. Byrd's comments in the monetary hearings, when he said: "During these Finance Committee hearings, we've done our best to show what the Administration planners are actually doing. If they continue the present high interest, hard money, tight credit policies, a recession and mass unemployment will be inevitable." But no alternative was forthcoming from Senator Kerr. Labor newspapers have been devoting columns to Kerr. And they reach 15

million readers!

▶ A new reason has been found for delaying action on Federal legislation: the Members of Congress are too "unstrung" to tackle the job. This is the analysis of a veteran observer, Speaker Sam Rayburn, who was explaining why the natural-gas bill won't be taken up until sometime next year. Rayburn favors the bill, but realizes it is a controversial bit -- and "unstrung" seems to be a handy diagnosis of Capitol Hill vote weakness. Sponsors are interposing no objections although exuding confidence the measure will pass early in 1958 and get Ike's signature. The legislation is on the House side; it squeaked through Committee and polls indicate the vote would be close if it came to the floor.

▶ Out of the cement strike has come a new "first": the cement union for the first time is making substantially the same demand on every company in the industry, without regard for differences in local business operations. This is called "pattern" bargaining. Its results may include chasing small firms out of the business. This is called "pattern" bargaining. Certain to follow is an increase in costs of many types of construction. If employers were to use precisely the same tactics of combination that the union is invoking, they would be guilty of violating the antitrust laws. But the unions have a free hand to combine, provided they do not work in concert with management or any other non-labor group. The guarantee is contained in the Norris-LaGuardia Act of 1932.

▶ The plan of 34 Eastern railroads to create a new Federal bureau to go into the railroad locomotive and freight car business, acquiring the rolling stock and leasing it to the carriers, isn't a dead issue. It had little attention from Congress this year. A score of years ago it might not be given a second thought; in fact it is doubtful that the railroads would have breached that subject. They wouldn't want "government interference" to such an extent. But now the question is not of free enterprise versus government meddling but one of economics -- sound economics, the railroads believe.

▶ The carriers are short of essential equipment for planned expansion because they are short of money that can be allocated to these purposes. So it is proposed that a bureau be established with a $500 million working fund and authority to borrow $2 billions additionally. It would buy locomotives and cars and lease them to the railroads at rates that would make the program self liquidating. The bill remains with the House Commerce Committee during the adjournment period, ready to be taken up in January.

▶ Railroads have consistently crusaded against government subsidies to carriers. The trucking industry, barge and airlines, they have complained have had a government crutch over the years, making competition uneven. To ask now that Federal money ease the operational pains of the rails seems something of a reversal of policy. But its demonstrable that the lines can operate in a much more favorable climate if they can modernize and enlarge their services. Impression in transportation circles here (ICC and the appropriate committees of Congress) is that an easier plan for acquiring rolling stock is but one of a package of cures, other elements of which are realistic freight and passenger rates, and a new look by the taxing authorities.

▶ A chorus of criticism, chiefly from democrats, greeted the FHA action authorizing an increase in the interest rate on FHA-insured mortgages, although there was general approval of inauguration of the lower down-payment schedule. Chairmen of the housing sub-committees in both branches took pot shots at the interest increase. In the House, Rep. Albert Rains, Alabama democrat, charged that the Administration acted to benefit "the big banking interests" and suggested Congress should restudy the FHA program with the thought of imposing a lower interest ceiling.

▶ Senator John J. Sparkman, Alabama, said the higher interest rate will give lenders an additional $500 million a year, and that it will offset the value of the reduction in down-payment. Administration supporters took the opposite tack. "If you're going to be able to borrow money, the rate's got to be realistic," said Rep. Charles Halleck, republican whip in the House.

# Financial-Economic Trouble Spots —AROUND THE WORLD

By DR. A. W. ZANZI

There are many Government officials around the world today who devoutly hope that Paris does not set the fashion trend this year. These men are not concerned with rising or falling hem lines. Rather they are preoccupied by the possibility that the French devaluation of the Franc may set off a round of competitive exchange depreciation such as followed the British action in 1949. For the sorry truth is that France is not the only country who has seen her gold and foreign exchange reserves dwindle into insignificance. Other nations have been precariously perched on the edge of devaluation and needed only the example of France's leadership to encourage them to take a similar leap. India, Indonesia, Japan, the Philippines, Turkey and Bolivia are now among the leading candidates for a chilling plunge into the often dubious therapeutic waters of exchange devaluation.

With the exception of West Germany, most of the industrialized countries of Western Europe have experienced a sharp decline in their gold and dollar assets during the first six months of 1957. France, Italy, Belgium, Luxembourg, the Netherlands and Switzerland all have suffered substantial losses this year. In large measure this drain is attributable to larger imports of dollar oil and coal caused by closure of the Suez canal. In addition, landed costs of all imports increased as a result of higher ocean freight rates. Moreover, the unabated economic boom in Europe intensified the demand for raw and semi-finished materials, much of it for stockpiling. Finally, half hearted measures designed to restrain

inflationary pressures have resulted only in an intensification of the problem and in adverse trade balances. In all instances, however, the basic cause of financial strain and inflation is the ever-increasing energy deficit of Europe and the efforts made to close the gap.

### France at the Crossroads

France's position is particularly precarious. Because of her prominent role in the European economy and her leadership in the Coal-Steel Community and the European Common Market, France's attempts to extricate herself from a long-postponed crisis will be closely and anxiously watched by the western world. For there is much more at stake than the successful bridging of a temporary economic crisis. France's very status as a major power is now in the balance. Until recently Paris had been able to stave off devaluation without affecting the necessary basic reforms in the French economy. But the approach of a crisis was signaled last February when the French had to start drawing against their standby credit of $262 million with the International Monetary Fund. And now that practically every device has been exhausted, the time has come when France must enact those measures which, while austere and unpalatable, are necessary to put her in good shape. These include balancing the budget, stiffening credit controls, slashing imports and adopting commercial and fiscal reforms which will make French goods more competitive abroad.

Unfortunately, it seems likely at this time that French politicians once again will shrink from such moves. Even a complete, across-the-board devaluation in the near future will not eliminate the need for attacking the root cause of France's economic woes. But drastic remedies are politically inexpedient. For these would demand effective restraints on money, wages and costs, reduction of Government expenditures and higher taxes. These prescriptions are manifestly not congenial to men seeking re-election. Nor are they particularly easy to fulfill in a country with a strong labor movement jealously guarding its inalienable right to periodic wage increases. Even now France's unions are preparing for a round of wage demands. Moreover, many of the social benefits financed by budgetary allocations would be endangered by the requisite reforms.

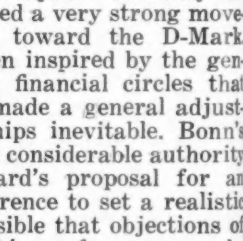
There is also risk that too much confidence may be placed in remedial measures not suited to the circumstances or requiring protracted application. For example it is claimed that devaluation will curb imports and stimulate the exports of the devaluing nation. The impression is thus created that by this magic instrumentality alone all will be made well. A more realistic appreciation would point out that exchange depreciation is only one of several steps required before the balance of payments is improved. It has already been suggested that the adoption of this solution should be recommended only if there were sufficient flexibility in money costs and wage rates. The evidence would indicate that this is not the case in France. Moreover, major adjustments of balances of trade can be brought about with relatively small changes in prices and costs only if the change in the price of imports relative to the price of competing home-produced goods causes a substantial shift toward the domestic item. Again there is little in the nature of the French case to suggest that sensitivities in demand to changes in price are not very high. Nevertheless, the efficacy of prices and costs in adjusting the balance of payments would be immensely increased if there were no licensing of imports and no tariff barriers abroad. But this is patently not the case. If anything, restrictionist practices are becoming more common every day.

Washington is not likely to provide the funds which Paris deems necessary until Finance Minister Gaillard has offered concrete assurance that a long-term program of sound financial reform will be undertaken with the unstinted backing of French people. Ironically, it may well yet turn out that Germany will prove France's last financial bastion. For there is an excellent prospect that West Germany may supply a major portion of the funds for a large loan to France which is now being studied by the Organization for European Economic Cooperation. Short-term capital transfers offer little hope to France inasmuch as the recent experience with raising discount rates in Europe suggests that money of this type is no longer very responsive to the magnet of higher interest rates.

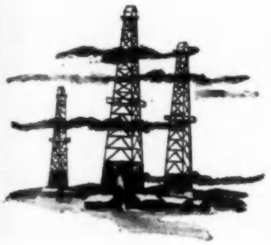
### Germany, Fortress of Gold

The weakening of the French franc has given renewed currency to the rumor that the German deutschemark will be revalued. Announcement of the limited devaluation of the franc sparked a heavy demand for the D-Mark and German financial markets were flooded by foreign capital. Currency exchanges in Zurich also reported a very strong movement of speculative money toward the D-Mark. These developments have been inspired by the general conviction in European financial circles that the French devaluation has made a general adjustment of monetary relationships inevitable. Bonn's strong financial position gives considerable authority to Economics Minister Erhard's proposal for an international monetary conference to set a realistic value on currencies. It is possible that objections of other European nations to this conference may be appeased by introducing this topic at the forthcoming annual meeting of the International Monetary Fund in Washington. This suggests that the coming IMF meeting may be one of the most dramatic and most significant in that organization's brief history.

### Washington and London Viewpoints



Two revaluation proposals are now under discussion in Europe and these will in all likelihood be continued in Washington. One plan calls for



holding the pound sterling at its present value while the mark, Swiss franc and dollar are revalued upward by 10%. This scheme also would drop value of French franc by another 10%, bringing the total decline to 30%. The second suggestion would leave the hard currencies unchanged at their present value, but would devalue the pound by 10% and the French by 30%. Washington is reported to be in favor of the second formula but strong British opposition is expected to defeat the measure. Germany also is a vigorous proponent of a currency union which would eliminate all balance of payments problems among members of the European Common Market. But the time is not yet ripe for such radical and far-reaching schemes as this.

It has been suggested that Germany might effect an appreciation of her currency to meet the situation created by her export boom. This is a matter which has received considerable attention lately in the press of various nations and which has drawn strong denials from Bonn. The reason the German Government has taken no such step is that an appreciation of the deutschemark would tend to eliminate the export surplus and might also engender an import surplus. But the most important consideration has been that the export boom was apparently to be of a temporary character requiring temporary expedients for its solution. Thus, the expedient of a general appreciation of German currency would not be appropriate for the situation. German loans and concessions to struggling neighbors will be the most likely expression of Bonn's willingness to deal sympathetically with the problems faced by France and some other countries, largely as a result of Germany's large export surplus with her European trading partners.

**Switzerland, World Banker Short of Capital**

Swiss economic policy has been moving more and more toward checking excessive boom conditions and rising prices. Recent heavy losses in gold and foreign exchange reserves have called attention to the fact that Swiss export prices are so high that only the superb quality of Swiss industrial products and the exceptional success of Swiss industrial research enables the country to export on the necessary scale. But the unabated upward trend of interest rates in Switzerland has threatened to get out of hand, causing considerable concern in Berne. The steady rise in the cost of investment capital in Switzerland began three years ago and has been fed since then by a yearly succession of new peaks in the aggregate amount spent on building construction.

The demand for capital to finance the construction of hydroelectric power facilities in Switzerland is so great that there is a serious shortage of investment funds for other purposes. Furthermore, the aggressive efforts being made to develop power sources elsewhere in Europe, particularly in Austria, have placed almost impossible demands on available capital resources. It seems likely that the ever growing energy deficit of Europe will continue to pose a serious problem, barring an economic slowdown or outright industrial reversal on the continent. For this reason Swiss efforts will be focused on restraining interest rates in order to mitigate their effect on the cost of living and thereby obviating demands for higher wages.

**Argentina, Land of Meat and No Power**

Argentina's foreign exchange losses have reached a point where they threaten to aggravate the serious disequilibrium which has been evident in that country for some time. The problem is the all-too-common one of over-zealous nationalistic ambitions crashing head-on into unyielding economic reality. Argentina's basic trouble arises from a ten-year legacy of inadequate fuel, transport, power and other heavy industry facilities in relation to expanded consumer goods industries. Heavy imports of raw materials, fuel and equipment needed to keep industry humming and thus prevent serious unemployment have seriously depleted the nation's gold and foreign exchange assets. The most serious drain is attributable to the fact that Argentina must import virtually all of her petroleum requirements inasmuch as the development of local resources has been hampered by adamant insistence that domestic oil deposits must be developed by national interests with local capital. The latter is almost non-existent, while recent Argentina policy seems calculated to discourage foreign investment.

Since the demand for oil imports is expected to continue increasing at a rapid pace, there appears to be little hope for an early reversal of Argentina's unfavorable balance of payments position. Despite import restrictions and a $75 million credit from the International Monetary Fund, the trade deficit for 1957 is expected to be at least $100 million. Large crops of exportable agricultural products expected this year will make little contribution toward redressing the country's unfavorable trade balance inasmuch as they will meet with increasing competition from other resources while internal transport and storage facilities are inadequate.

Most analysts agree that the country's only salvation lies in the expansion of her basic industries. It has been estimated that an investment of more than $2 billion will be required in the next three years merely to put Argentina's obsolete industrial machinery and transport equipment back into efficient working condition. Normally even this would be a staggering task for a country with Argentina's limited capital, exchange and technical resources. But Buenos Aires is at a further disadvantage in solving her investment problems because of popular sentiment against seeking the cooperation of foreign capital. The results of the recent elections in Argentina are generally interpreted as openly reflecting this attitude. Although U. S. business-

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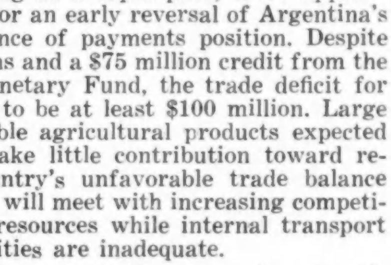
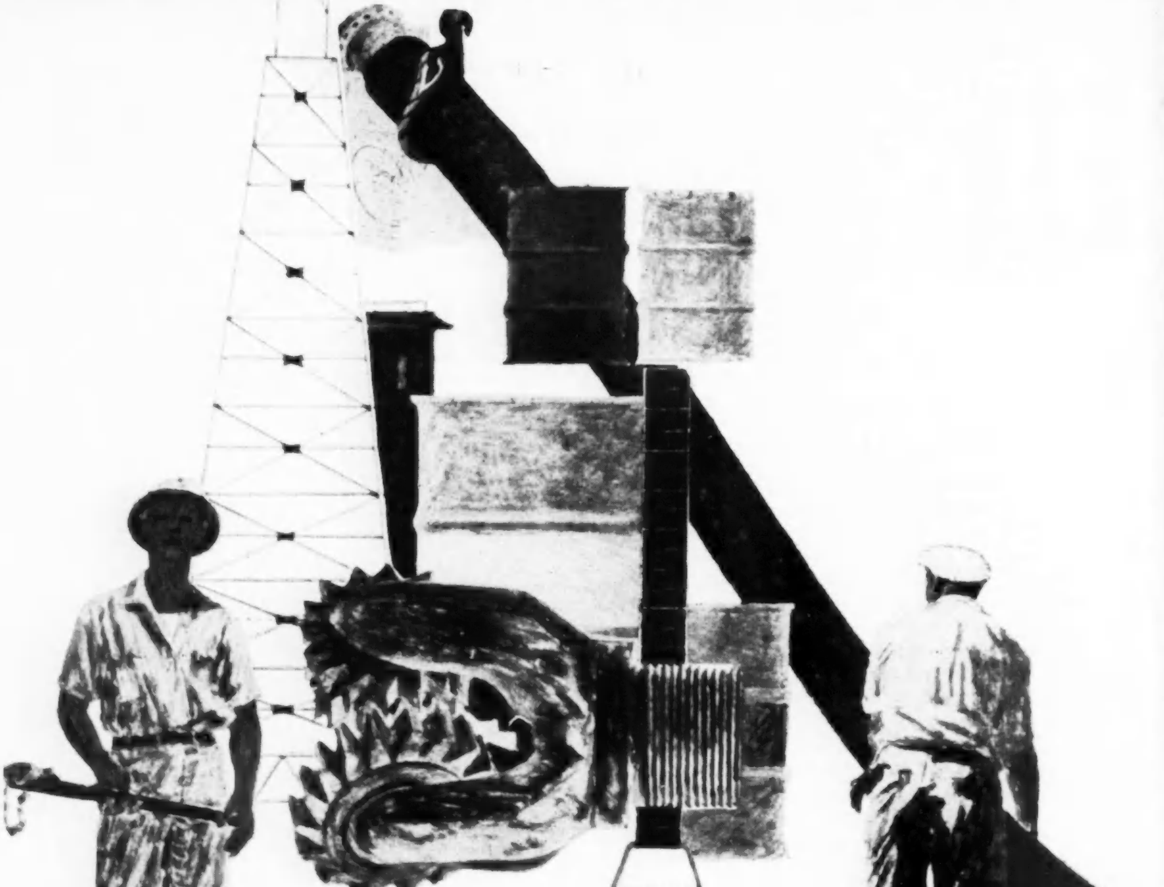




# SPECIAL Mid-Year Re-appraisal of the SPECTACULAR OIL INDUSTRY

**By ALEXANDER KENNEDY**

For most of America's oil companies the first half of 1957 was highlighted by exceptionally fine earnings resulting from the abnormal supply and demand patterns that developed during the Suez affair. But for the balance of the year the industry's fortunes will be tied more closely to the domestic scene, where once again the recurrent problem of oversupply is the most pressing matter the industry has to face.

At the same time, however, a wary eye will be kept on the middle east, the area on which so much of the industry's future is dependent. For despite the fact that, periodically, petroleum product supply outruns current demand, it falls far short of meeting the tremendous needs that can be easily projected for just a few years ahead. And although American reserves of the fuel, plus new sources in the process of development, assure us an adequate source of supply for many years to come, it is the Middle East that will provide the lion's share of oil for the free world. And we can also expect that the major portion

of the industry's tremendous capital investment in petroleum will be poured into this area over the next few years.

### The Oil Industry at Home

The oil lift to Europe—which is now generally conceded to be one of the outstanding peacetime achievements of U. S. industry, and ranks with the Berlin Airlift as one of the miracles of our time—created an above normal demand for U. S. crude oil and products during the first half of the year, bringing total demand for petroleum products to an average of 9,881,000 barrels daily – a figure which was about 6.9% ahead of last year. Actually, demand for U. S. crude and products increased by 400,000 barrels per day in the first half of the year for reasons directly attributable to the Suez crisis.

During the first quarter the industry shipped oil out of the country at the rate of about 940,000 barrels a day, and about a third of this was crude oil exported to Europe to fill the gap left by the withdrawal of Middle East supplies. However, by the second quarter, exports had declined considerably to a level of 607,000 barrels per day, and with the effects of the crisis virtually spent now, they should run at the normal rate of approximately 360,000 barrels per day, through the second half.

*Application of New Government Import Restriction Plan To Individual Companies*

THOUSANDS OF BARRELS DAILY

| Company | Programmed Last Half 1957[2] | Imports per Formula[3] | Required Cutback |
|---|---|---|---|
| **ESTABLISHED IMPORTERS[1]** | | | |
| Atlantic Rfg. Co. | 75.7 | 58.9 | 16.8 |
| Gulf Oil Corp. | 153.0 | 111.6 | 41.4 |
| Sinclair Oil Corp. | 74.6 | 62.2 | 12.4 |
| Socony Mobil Oil Co. | 78.9 | 67.1 | 11.8 |
| Standard Oil Co. (Calif.) | 86.0 | 66.8 | 19.2 |
| Standard Oil Co. (N. J.) | 87.0 | 72.0 | 15.0 |
| The Texas Co. | 74.9 | 54.5 | 20.4 |
| Sub-Total | 630.1 | 493.1 | 137.0 |
| **NEW IMPORTERS** | | | |
| Cities Service Oil Co. | 32.6 | 32.6 | ...... |
| Eastern States Petroleum Co. | 18.3 | 18.3 | ...... |
| Gabriel Oil Co. | 7.5 | 7.5 | ...... |
| Great Northern Oil Co. | 33.0 | 33.0 | ...... |
| International Refineries | 10.9 | 10.9 | ...... |
| Lakehead Pipeline Co. | 0.3 | 0.3 | ...... |
| Lake Superior Oil Co. | 5.0 | 5.0 | ...... |
| Northwestern Rfg. Co. | 10.0 | 10.0 | ...... |
| Phillips Petroleum Co. | 12.0 | 12.0 | ...... |
| Shell Oil Co. | 7.5 | 7.5 | ...... |
| Standard Oil Co. (Ind.) | 49.4 | 29.8 | 19.6 |
| Standard Oil Co. (Ohio) | 8.2 | 8.2 | ...... |
| Sun Oil Co. | 58.4 | 50.4 | 8.0 |
| Tidewater Oil Co. | 84.6 | 34.2 | 50.4 |
| Southwestern Oil & Rfg. Co. | 2.9 | 2.9 | ...... |
| Sub-Total | 340.6 | 262.6 | 78.0 |
| Total Districts I-IV | 970.7 | 755.7 | 215.0 |

1—Includes those companies whose 1954 imports into Districts I-IV exceeded 20 thousand barrels a day.
2—Imports as reported to the ODM in July, 1957.
3—Recommended level 2nd Half 1957 and 1st Half 1958.

But the high level of exports which is included in the total demand figures, tends to mask a totally different domestic sales picture. Preliminary indications are that domestic demand increased less than 2% during the first half, or only half of the 4% generally anticipated by the industry when it made its annual predictions in January.

### Reasons for Lower Demand

A number of factors contributed to the reduced demand, although to begin with, demand during the first half of 1956 was unusually high (up 6.6% over the previous year) and some reduction in the rate of increase was to be expected. However, four other major factors adversely affected industry sales.

First, general industrial activity fell off about 2% during the spring months, whereas most economic forecasters had anticipated at least a holding of the line from the first to the second quarter.

Secondly, storms, tornadoes and generally poorer driving weather during the major portion of the year reduced motor fuel consumption in most areas of the country. The midwest farming regions, in particular were hurt, with normal agricultural work suspended for extended periods. And even in the Southwest, where normal seasonal fluctuations in usage are not so accentuated, the demand fell about $4\frac{1}{2}$%.

Thirdly, abnormally high temperatures from February through May substantially reduced the requirements for heating oil by an estimated 150,000 barrels per day.

And lastly, the anticipated surge in asphalt demand, due to the projected multi-billion dollar road building program has not materialized. Contract delays, inability of many of the states to meet their share of the obligation, and poor weather conditions all held the program in abeyance, but in any event, for the first four months of the year asphalt demand actually showed a 5% drop from a year ago.

### Supply Factors

The supply-demand record since the beginning of the year shows that the industry has been overproducing both crude and products. The Suez Crisis and the oil lift brought some temporary relief from the oversupply, but even in February, when U.S. crude inventories were down to 250,000,000 barrels, the total stocks of major petroleum products were still 25,000,000 barrels above the same period in 1956. And after the Suez Canal was reopened, the industry was still overstocked with motor fuel – inventories being about 10,000,000 barrels above a year ago.

In recent weeks there has been some success in reducing the industry's operating rates, but unfortunately excesses carried over from 1956 have created problems that cannot be solved easily. Still, the supply situation is now moving in a more favorable direction, although at least another three months will be required before the entire supply-demand relationship can be brought into balance.

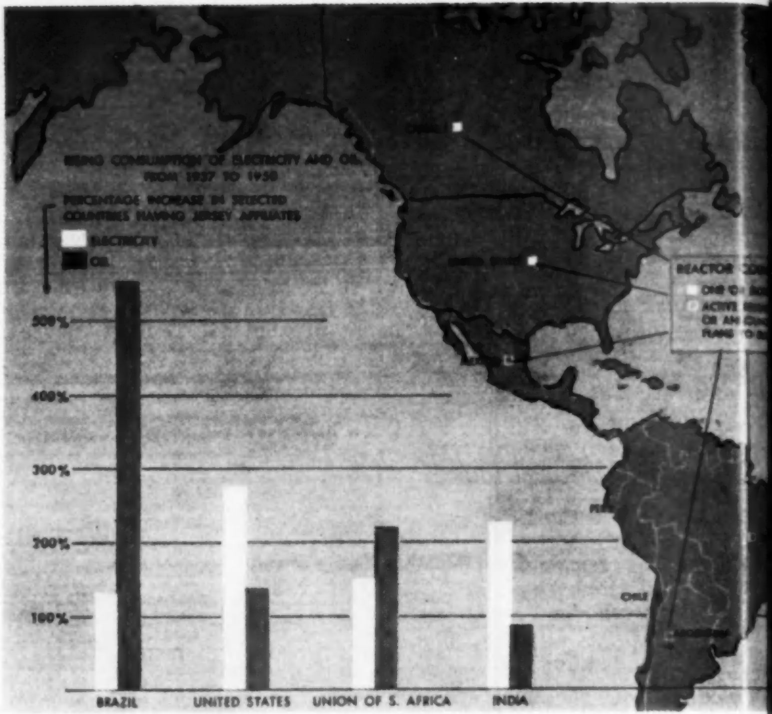
### Domestic Demand for the Rest of the Year

For the year as a whole, the industry's strength should lie in the market for gasoline, distillate fuel oils, liquid petroleum gas and asphalt. The figures

for July look a little better than those of the previous few months, but still there is no indication that the rate of increase will proceed beyond the normal rate to be expected.

The introduction of new car models in the fall should get more cars on the road, and gasoline consumption may be about 4% higher than last year. Assuming normal weather and an increase of over 5% in the number of oil burners in use, distillate fuel oil is expected to show a 4.7% gain for the year as a whole.

An abnormally warm spring reduced the use of LPG for heating purposes, and consumption was further reduced when generally unfavorable weather in the farm regions halted agricultural work and lowered tractor consumption. But for the year, demand for LPG is expected to rise about 6.1%. Furthermore increased demand for asphalt in the second half is expected to result in a 2% increase for the entire year, despite the 5% loss in the first four months. Total lubricant demand, both automotive and industrial, should show an increase of about 1.7%.




### The Inventory Problem—and Imports

But the industry's problems basically have been —and are—more severe on the supply side than on the demand side. Furthermore, the industry can exercise a very definite effect on supply, whereas demand is a much more complicated factor not subject to the whims or wishes of the industry. Thus, recently announced cutbacks in refinery runs indicate that a number of refiners are making a constructive effort to cope with the oil product inventory problem. There has been some curtailment of crude production, as well, but this proved ineffectual in view of the heavy flow of oil from abroad. Therefore, at the end of July the President acting on a cabinet committee's suggestion requested all oil importers to cutback their imports of foreign crude by 10% below the average imports for the years 1954 through 1956. This cut is to apply to the second half of 1957 and the first half of 1958—but Pacific Coast imports are to be excluded from the restrictions. The companies affected will be those that brought in 20,000 barrels and over of crude daily during 1954. Those who brought in less will still be able to bring in their scheduled imports, providing they are not greater than 12,000 barrels daily above their 1956 imports. The attached table shows the reduction from programmed crude imports for the last half of 1957 which each company is requested to make.

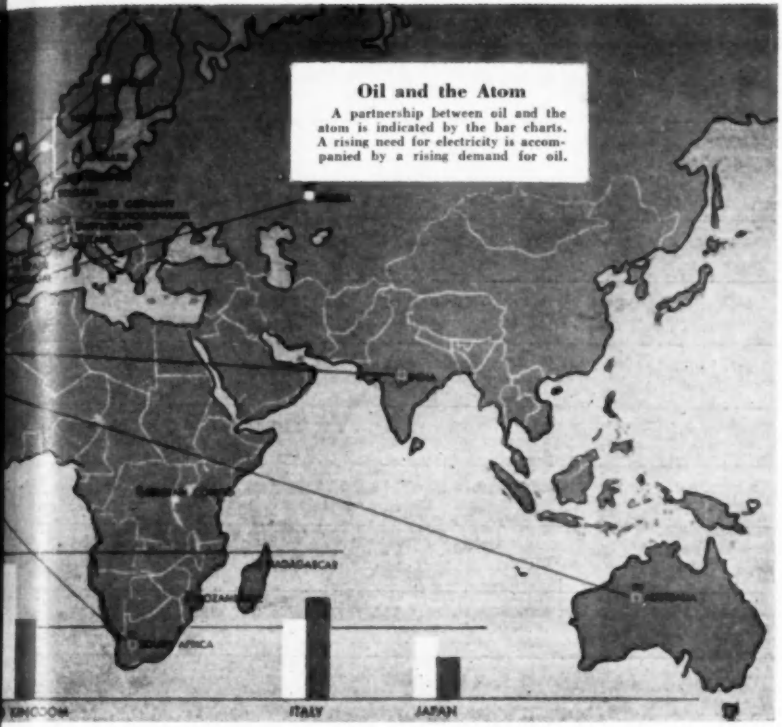
As is to be expected, the President's request, was tantamount to an order, since it carried behind it the implied threat that if the industry did not comply, the suggested cuts would be made mandatory. While the domestic companies welcomed the action, a number of the importers balked, for many of the companies have been cooperating wtih the government in the last few years in holding down their imports, especially from the middle east. Now they find that new restrictions have been placed on top of the reduced import levels they imposed upon themselves. In effect, then, those companies that were cooperating with the administration before, are hit harder than those who were not cooperating at all.

Nevertheless, despite a number of dissident voices, the industry is expected to comply with the President's request, since it recognizes the program as a lesser evil than direct government control to enforce a reduction in imports.

### Cabinet's View on Imports

It is interesting to note, that in making its decision, the President's cabinet committee apparently rejected completely the argument that increased imports of oil contribute to our national security by conserving America's domestic resources. The committee took the other side of the coin as the more significant—that is, that the price level must be protected so as to encourage exploration for oil in the U. S., so that added reserves can be developed in case of a new national emergency. The committee was probably most impressed with the drop in the rate of exploration this year, despite the attractive tax advantages.

Voluntary plans for reducing imports are not new and just how successful this new plan will be depends on the extent of compliance of various companies having special problems. Some of the unique aspects of this plan are the consideration given to the problems of companies who have recently entered the import field so that concessions to them were made at the expense of established importers —and that importers are permitted to import their oil from any foreign country that they choose. In




**Oil and the Atom**

A partnership between oil and the atom is indicated by the bar charts. A rising need for electricity is accompanied by a rising demand for oil.

this way, they themselves can act to placate the governments and not throw it into the lap of the State Department.

Then there is the possibility that if domestic producers advance production enough to make up for the deficits, the effect will be to cancel out the objectives of the restrictions. However, actually these restrictions are really a stop-gap to correct the current situation and have no long-term significance, for it is well recognized that the nation's requirements of imported oil between now and the middle 1960s are expected to increase threefold. And it is from the middle east that most of this increase must come.

### The Search for Oil

Not long ago, Augustus Long, chief executive officer of the Texas Company, estimated that if the projected growth trends of free world use of oil are correct, the industry will be required to invest another $60 billion in the quest for new reserves during the next five years. It is well known that the middle east representing about 75% of the free world's total reserves, is today an extremely unstable political area and the various factional disputes and sporadic intramural wars, added to continuing Russian pressure to sink its teeth into one of the most strategic areas in the world, are bound to cause oil investors more than the normal number of skipped heartbeats in any given year. Yet, here is where a large portion of money will be spent while new areas are being probed.

The traditional dominance of middle eastern oil by British, American and French interests is being challenged by various countries lately—by Japan, who is seeking agreements with various middle eastern countries, and most importantly and sensationally too, by the Ente Nazionale Idrocarbari (ENI), the State oil combine of Italy.

### That 75%-25% Italian Proposal

ENI is headed by Enrico Mattei, a particularly dynamic individual and known friend of Egypt's Col. Nasser. Much publicity has recently been given to the 75%-25% deal he has signed with Iran, which makes it appear that the traditional 50-50 arrangement between the British, American and French companies and the nations in the area is in serious jeopardy. However, a closer scrutiny of the deal Mr. Mattei has made shows that this is not so. In the first place, under the proposed plan the National Iranian Oil Company and ENI will be equal partners in the exploration and development of oil reserves in specified areas, and each will put up 50% of the capital required (whether NIOC will be obliged to put up 50% in cash or contribute the explored land as an investment has not been made clear). Under the proposed partnership plan, the government will take 50% of the profits, thus realizing the same 50% it obtains from its deals with the Consortium companies. And the other 50% naturally will be shared by NIOC and ENI, 25% going to the government controlled entity and 25% to the Italian company, in the same way that the profits would be distributed in any equal partnership.

The American-British-French companies, on the other hand, put up the entire capital and take all the risks involved splitting 50-50 with the government. Quite different from the proposed Italian plan in which the financial risk is divided equally. (And, incidentally, Mr. Mattei's proposal has yet to be ratified by the Iranian parliament).

However, it is conceivable if the government of Iran agrees to the proposal and the experiment works out well, they could force the other companies to enter into similar agreements for further exploration and production. But, at the moment, there is no reason to suppose that the Consortium agreement in force since 1954 will be effected. Running for 25 years, it is renewable for three consecutive five year periods.

In other middle eastern countries, there are no counterparts to the NIOC, and although it could be set up on paper, it could not be implemented, since most of the nations involved lack the personnel to place even a skeleton staff in such an operation. It is possible, of course, that the Middle Eastern countries controlling the oil, using the ENI agreement as a wedge, could press for a higher percentage of the profits in the form of higher income taxes for the operating companies—a matter that is in the lap of the Gods.

### Russia and the Middle East

Of great significance to the oil companies are the recurrent Russian power threats in the area, which cannot be underestimated. Aside from the obvious

## *Statistical Data on Leading Oil Companies*

| | 1st 6 Months | | | | | | Full Year | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Net Sales (Millions) | | Net Profit Margin | | Net Per Share | | Earned Per Share | | Dividend Per Share | | | | |
| | 1956 | 1957 | 1956 % | 1957 % | 1956 | 1957 | 1955 | 1956 | 1956 | Indicated 1957 | Price Range 1956-57 | Recent Price | Div. Yield |
| AMERADA PETROLEUM<br>W.C. (mil.) '55—$41.7; '56—$46.9 | $ 53.3 | $ 61.5 | 25.4% | 25.4% | $2.15 | $2.48 | $4.02 | $4.20 | $2.00 | $2.00 | 147½-91½ | 119 | 1.6% |
| ATLANTIC REFINING<br>W.C. (mil.) '55—$93.4; '56—$123.5 | 275.1 | 302.0 | 8.0 | 8.3 | 2.40 | 2.74 | 4.25 | 5.11 | 2.00 | 2.00 | 57⅜-35½ | 47 | 4.2 |
| CITIES SERVICE<br>W.C. (mil.) '55—$99.6; '56—$107.7 | 497.9 | 547.5 | 6.1 | 6.6 | 3.01 | 3.52 | 4.88 | 6.03 | 2.40[1] | 2.40[1] | 73⅛-54 | 64 | 3.7 |
| CONTINENTAL OIL<br>W.C. (mil.) '55—$106.0; '56—$106.7 | 285.2 | 304.3 | 8.9 | 7.7 | 1.31 | 1.21 | 2.38 | 2.65 | 1.52 | 1.60 | 70¼-47 | 56 | 2.9 |
| CREOLE PETROLEUM<br>W.C. (mil.) '55—$197.1; '56—$131.4 | n.a. | n.a. | n.a. | n.a. | 2.04 | 2.86 | 3.78 | 4.34 | 3.75 | 4.25 | 96 -66⅛ | 88 | 4.8 |
| GETTY OIL<br>W.C. (mil.) '55—$20.5; '56—$16.4 | 7.5 | 11.5 | 5.3 | 11.2 | .26 | .88 | .78 | .51 | .40 | .40 | 39⅛-16⅜ | 31 | 1.2 |
| GULF OIL<br>W.C. (mil.) '55—$439.5; '56—$393.7 | 1,101.5 | 1,333.6 | 12.8 | 14.5 | 4.77 | 6.81 | 8.19 | 9.54 | 2.50[1] | 2.50 | 152 -83⅜ | 130 | 1.9 |
| HUMBLE OIL & REF.<br>W.C. (mil.) '55—$78.1; '56—$99.6 | 590.8 | 667.7 | 15.6 | 16.1 | 1.29 | 1.50 | 2.44 | 2.50 | 1.20 | 1.40 | 66 -54¼ | 62 | 2.2 |
| IMPERIAL OIL<br>W.C. (mil.) '55—$207.6; '56—$254.4 | 387.0 | 436.9 | 8.7 | 8.6 | 1.13 | 1.20 | 2.08 | 2.20 | 1.20 | 1.20 | 64 -36¾ | 53 | 2.2 |
| KERR-McGEE OIL IND.<br>W.C. (mil.) '55—$13.4; '56—$20.3 | 64.5[2] | 75.3[2] | 5.2[2] | 7.1[2] | 1.55[2] | 2.33[2] | 1.30 | 2.16 | .60 | .80 | 75¾-42⅝ | 64 | 1.2 |
| OHIO OIL<br>W.C. (mil.) '55—$76.8; '56—$73.8 | 140.7 | 146.9 | 15.1 | 15.1 | 1.62 | 1.69 | 3.14 | 3.14 | 1.60 | 1.60 | 47⅛-33⅝ | 38 | 4.2 |
| PHILLIPS PETROLEUM<br>W.C. (mil.) '55—$138.8; '56—$173.7 | 507.9 | 572.8 | 10.1 | 9.3 | 1.50 | 1.55 | 2.78 | 2.77 | 1.60 | 1.70 | 56¾-39⅜ | 44 | 3.8 |
| PLYMOUTH OIL<br>W.C. (mil.) '55—$19.2; '56—$17.2 | 53.0 | 62.9 | 8.0 | 7.0 | 1.75 | 1.78 | 2.83 | 3.22 | 1.60[1] | 1.60 | 40¼-30¼ | 32 | 5.0 |
| PURE OIL<br>W.C. (mil.) '55—$96.0; '56—$105.9 | 251.2 | 260.7 | 7.0 | 7.2 | 2.08 | 2.21 | 4.05 | 4.26 | 1.60 | 1.60 | 51¾-37⅝ | 40 | 4.0 |
| RICHFIELD OIL<br>W.C. (mil.) '55—$73.1; '56—$73.1 | 123.2 | 134.2 | 11.7 | 10.2 | 3.63 | 3.43 | 7.40 | 6.64 | 3.50 | 3.50 | 84¼-62¾ | 73 | 4.7 |
| SEABOARD OIL<br>W.C. (mil.) '55—$10.6; '56—$10.9 | 22.9 | 26.7 | 21.7 | 24.0 | 1.36 | 1.76 | 2.31 | 2.56 | 1.00 | 1.00 | 80½-52¾ | 73 | 1.3 |

W.C.—Working capital.
n.a.—Not available.

[1]—Plus stock.
[2]—9 mos. March 31.

strategic importance of the Middle East and its fabulous oil reserves there is Russia's 300 year old ambition to become a dominant factor in this area, as well as her trade needs for warm water ports and tropical products.

For that reason her recent coup in Syria takes on significance, providing a base for Communist power politics, as well as oil intrigue—for Syria is the possessor of the most important pipeline system in the Middle East. This makes a Communist regime in that country a matter of great concern to the major oil producers.

However, since the Syrian economy relies heavily on the revenues received from the pipeline, she is unlikely to take steps that will cause her to again undergo the hardships that were her lot during the Suez crisis when she sabotaged the pipeline.

However, the aggressive managements of the oil companies have since Suez been actively planning the construction of a pipeline from the Persian Gulf through Iraq, into Turkey, as an alternative to the Syrian facilities. But the political intrigue in that area is such that Iraq is reluctant, in the belief that much of its well being depends on maintaining good relations with Syria.

In any event, the Syrian situation will bear close

## *Statistical Data on Leading Oil Companies (Continued)*

| | 1st 6 Months: Net Sales 1956 (Millions) | Net Sales 1957 (Millions) | Net Profit Margin 1956 % | Net Profit Margin 1957 % | Net Per Share 1956 | Net Per Share 1957 | Full Year: Earned Per Share 1955 | Earned Per Share 1956 | Dividend Per Share 1956 | Dividend Per Share Indicated 1957 | Price Range 1956-57 | Recent Price | Div. Yield % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SHELL OIL<br>W.C. (mil.) '55—$231.2; '56—$287.2 | $794.9 | $902.5 | 8.7% | 8.3% | $2.29 | $2.49 | $4.14 | $4.49 | $2.00[1] | $2.00 | 93½-56½ | 85 | 2.3% |
| SINCLAIR OIL<br>W.C. (mil.) '55—$231.7; '56—$311.9 | 596.7 | 645.9 | 7.5 | 6.9 | 3.10 | 2.93 | 5.68 | 5.98 | 3.00 | 3.00 | 72¾-54¾ | 59 | 5.0 |
| SKELLY OIL<br>W.C. (mil.) '55—$49.9; '56—$59.7 | 124.8 | 132.4 | 12.4 | 15.0 | 2.70 | 3.47 | 5.61 | 5.93 | 1.80 | 1.80 | 80¼-52⅞ | 68 | 2.6 |
| SOCONY-MOBIL<br>W.C. (mil.) '55—$580.5; '56—$590.3 | 1,323.3 | n.a. | 9.3 | n.a. | 2.84 | 2.81 | 4.76 | 5.70 | 2.50[1] | 2.50 | 66 -47⅜ | 57 | 4.3 |
| STANDARD OIL CALIF.<br>W.C. (mil.) '55—$283.2; '56—$308.5 | 686.2 | 835.5 | 17.7 | 16.2 | 1.93 | 2.16 | 3.66 | 4.24 | 1.65 | 1.80 | 59⅞-43¼ | 54 | 3.3 |
| STANDARD OIL IND.<br>W.C. (mil.) '55—$478.7; '56—$460.1 | 937.9 | 1,038.8 | 8.0 | 7.9 | 2.24 | 2.33 | 4.75 | 4.22 | 1.40[3] | 1.40 | 65 -48½ | 49 | 2.8 |
| STANDARD OIL N. J.<br>W.C. (mil.) '55—$1,642.4; '56—$1,650.1 | n.a. | n.a. | n.a. | n.a. | 2.00 | 2.35 | 3.61 | 4.11 | 2.10 | 2.20 | 68½-47⅜ | 62 | 3.5 |
| STANDARD OIL OHIO<br>W.C. (mil.) '55—$63.4; '56—$54.0 | 180.7 | 193.2 | 7.4 | 6.5 | 2.71 | 2.53 | 4.61 | 5.35 | 2.47[1] | 2.50 | 62¼-39⅜ | 52 | 4.8 |
| SUN OIL<br>W.C. (mil.) '55—$78.5; '56—$98.6 | 350.4 | 400.9 | 7.1 | 6.2 | 2.48 | 2.34 | 4.72 | 5.22 | 1.00[1] | 1.00[1] | 82 -70¼ | 73 | 1.3 |
| SUNRAY—MID-CONT.<br>W.C. (mil.) '55—$84.2; '56—$83.2 | 165.5 | 177.7 | 13.3 | 18.9 | 1.23 | 1.85 | 2.27 | 2.41 | 1.20[1] | 1.32 | 30⅛-22⅝ | 25 | 5.2 |
| TEXAS CO.<br>W.C. (mil.) '55—$538.6; '56—$598.5 | 964.5 | 1,199.4 | 14.3 | 13.7 | 2.52 | 3.01 | 4.79 | 5.51 | 2.35 | 2.45 | 76½-53⅛ | 71 | 3.4 |
| TEXAS GULF PROD.<br>W.C. (mil.) '55—$5.1; '56—$6.8 | 8.3 | n.a. | 38.4 | n.a. | .81 | .95 | 1.72 | 1.46 | .60[1] | .60 | 51 -32 | 36 | 1.8 |
| TEXAS PAC. COAL & OIL<br>W.C. (mil.) '55—$6.1; '56—$6.4 | 11.8 | 12.9 | 31.9 | 30.7 | 1.05 | 1.10 | 2.22 | 2.01 | 1.00 | 1.00 | 45⅜-33 | 33 | 3.0 |
| TIDEWATER OIL<br>W.C. (mil.) '55—$90.0; '56—$124.4 | 131.7[5] | 157.2[5] | 6.8[5] | 7.2[5] | .88[5] | .88[5] | 3.03 | 2.90 | [4] | [4] | 47¾-32¼ | 34 | .... |
| UNION OIL OF CALIF.<br>W.C. (mil.) '55—$88.3; '56—$158.5 | 192.0 | 219.0 | 7.0 | 7.6 | 1.77 | 2.17 | 4.12 | 4.45 | 2.40[1] | 2.40 | 65⅝-51⅜ | 54 | 4.4 |

(W.C.)—Working capital.
n.a.—Not available.

1—Plus stock.
2—Thus far in 1957.
3—Plus 1/65 sh. S.O.N.J. stock.

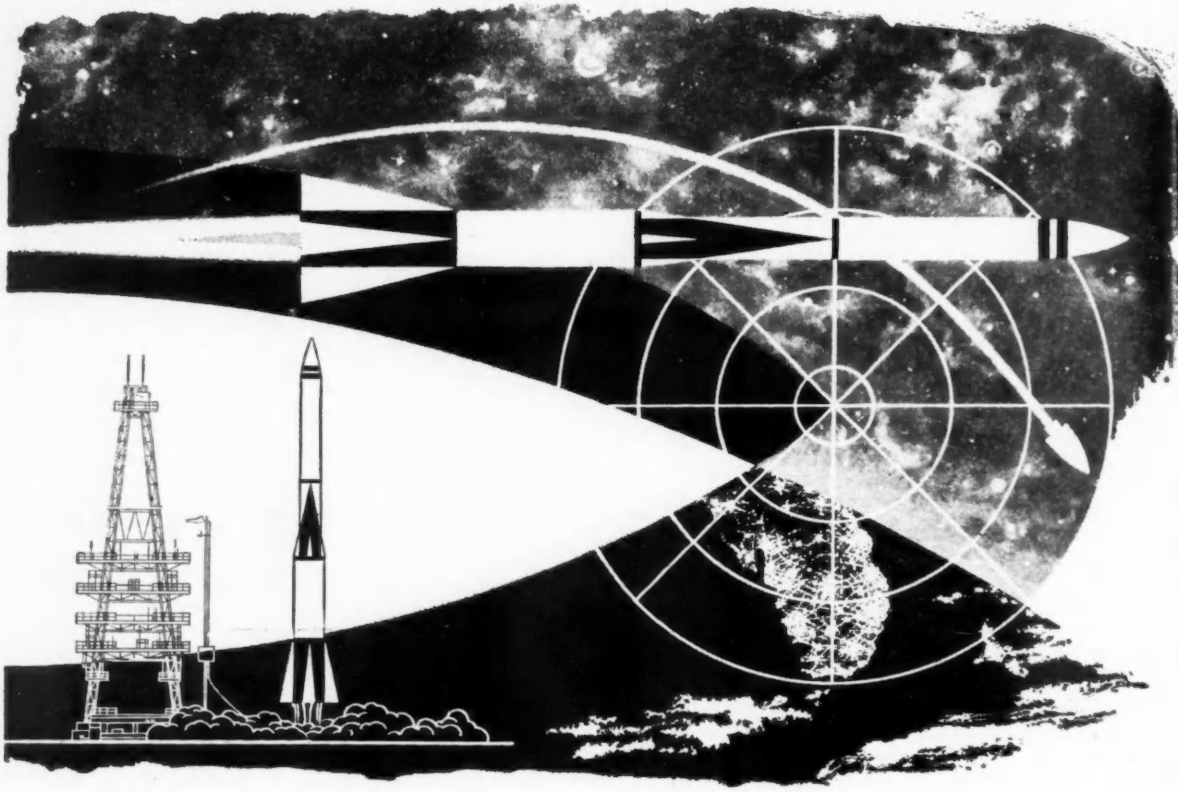
4—Paid 5% stock.
5—1st Quarter.

watching, since a full-fledged Soviet satellite could be a serious disrupting influence in the Middle East.

### The Battle for Oman

Similarly, the recent strife in Oman is cause for concern in the industry, as much for strategic reasons as for the disposition of the area's possible oil reserves. Cities Service has drilled some successful wells in the Dhofar region, but so far it does not seem to be as prolific as some of the other section of the east. Nevertheless, the recent flare-up of factional rivalry between the Imam and the Sultan, which became a *cause celebre* when the British used their colonial troops to suppress one faction, points up the strategic importance of the area. King Ibn Saud is obviously straining to maintain his power position and wants a hand in the potential oil in Oman, but both the British and the oil companies are more concerned with the fact that whoever controls Oman, controls the flow of maritime traffic into and out of the Persian Gulf—a vital seaway in oil industry economics.

There can be no gainsaying the worrisome aspects of the middle east, but the oil companies have developed considerable (*Please turn to page* 742)



# FIRST HAND FACTS ON ORDERS for AIRCRAFTS and MISSILES

By ALLEN M. SMYTHE

Over one year ago an eager Congress added $900 million to the full budget request for national defense. It was earmarked for extra-B-52 heavy bombers, their aerial tankers, and military research. Secretary Charles E. Wilson announced that this extra amount was not needed and would not be used.

This year shortly after the budget message in January, Congress, ever responsive to public opinion, began to investigate "the duplication and extravagance" of the Pentagon. Five separate committees have done a good job of suggesting policies for economy and military efficiency.

The final amount for defense funds agreed upon in Congress was $33.7 billion. The original budget request was $36.1 billion. Of this amount the Air Force was allowed $5,386 million for procurement and $680 million for research and development. The Navy received $1,837 million for aircraft and missiles and $505 million for research. The Army received $400 million for research.

Last Spring the Administration became alarmed at the increasing costs of military hardware and reports from Treasury experts that military expenditures would cause the nation to reach the statutory debt limit of $275 billion within six months.

A year ago at the beginning of fiscal 1957, it was estimated that the annual expenditures would be $36 billion. Actual spending for fiscal 1957 was $38.2 billion and the rate of expenditure in the last few months was over $40 billion. Over six billion was spent on airframes and nearly two billion each on aircraft engines and missiles. Research and development accounted for $1.7 billion.

At Cabinet level the decision was made to stay within the present debt limit rather than ask Congress to increase it. To do so, Secretary Wilson must reduce both military and civilian personnel 5 to 10 per cent, overhead and construction by 10 to 20 per cent, and military hardware expenditures by one to one and a half billion.

As a partial justification of the military cutbacks, Mr. Wilson has stated that the international situation "is not as tough as it was a year ago". He promised to make all reductions as painless as possible and to watch for economic dislocation in local areas, but also said "more bad news is coming".

As a last major administration act of his regime before his successor, Neil H. McElroy takes complete

charge, Secretary Wilson is giving personal attention to all cutbacks. 100,000 military personnel will be released by January 1, 1958 and 200,000 or 250,000 by next July. 20,000 civilian workers are being released by the Air Force and 18,000 by the Navy with more to follow after the first of the year. Many construction projects have been eliminated.

The earliest effort to economize was the reduction of the ceiling of 20 B-52 heavy bombers and 20 KC-135 aerial tankers to 15 per month. Both are built by Boeing who had planned to reach the original ceilings this winter. Next followed the elimination of tactical bombers in the development stage. This cost Martin and Douglas much future business. Cancellation of the huge C-132 Douglas transport followed.

Spending kept rising. It takes real administrative effort, political courage, and presidential backing to hold military expenses down when the three services have been geared for increasing outlays. And, what was needed was at least a ten per cent overall reduction.

Secretary Wilson, with the full support of President Eisenhower, began to take further action to cut procurement. A number of guided missiles in the development stage were quietly dropped. A number in the production stage were held up "awaiting an improved model". Among these were the Convair Terrier, the Bendix Talos, the Martin Matador, the Vought Regulus, the Douglas Nike, and the Philco Sidewinder. These delays have not only meant better weapons and reduced current expenditures, but often also a lower unit price.

The Navy has cancelled two types of carrier aircraft built by Douglas. The Air Force has held up production of the Lockheed F-104 and the Republic F-105 fighter aircraft "for further testing and improvement". Stretch-outs have been ordered in the Air Force McDonnell F-101, the Convair F-102 and F-106 and the Navy Vought F8U –all fighter aircraft.

Production on the Douglas C-133 transport has been cut in half. The Jupiter 1500 mile ballistic missile is being "consolidated" with the Thor built by Douglas.

The cancellation of the Navaho intercontinental "airbreathing" missile caused dismissals of over 10,000 employees at the North American Aviation factory in Downey, California and a loss of business to 2600 suppliers. According to one Pentagon fiscal official " over a billion" has been spent on this weapon.

This was the first of the ten strategic nuclear delivery systems to be cancelled. According to Air Force Secretary James A. Douglas others may soon be cancelled, held up, stretched out, or reduced. These were identified as the Convair Atlas and the Martin Titan intercontinental ballistic missiles, the Douglas Thor and the Chrysler Jupiter intermediate ballistic missiles, the Northrop Snark "air-breathing" guided missile, the Boeing B-52 heavy bomber, the Convair B-58 medium bomber, the WS110 chemical engine bomber, and the WS125 atomic engine bomber.

The Chrysler Jupiter appears to be on the way out too. Northrop has been given a $73 million contract for the initial production of the Snark. The ballistic missiles are classified projects and their success or failure may be determined four to five years in the future. It is both improper and impossible to predict which weapon may be adopted.

The WS110 and WS125 bomber projects are weapons of six to ten years hence. They are being reviewed for possible immediate savings. General Electric and the Pratt & Whitney division of United Aircraft have a stake in the engines. North American, Boeing and Lockheed are interested in the airframes.

The cancellations and cutbacks, particularly of multi - engine aircraft, have had a great impact on jet engine manufacturers. The picture is clearer in this area than in the airframe situation. Ford, Allison, and Curtiss-Wright are the big losers and are almost out of the picture for future military business.

General Electric is almost ready to go into quantity production of their new lightweight J-79 jet engine and is in an excellent position to become and remain the number two jet engine manufacturer. Pratt & Whitney is now going into production of the new and large J-75 for which there is a big military demand. Both of these firms have research contracts for chemical fuel and atomic engines which should assure them future military production contracts.

The Allison Motor Division of General Motors Corp. has a $95 million plant investment in Indianapolis for jet engines. It has very little present and almost no prospects for future business.

Ford Motor Co. is the licensee and second source for the Pratt & Whitney J-57 and J-75 jet engines.

### *The Aircraft Industry*

**EMPLOYMFNT**
**(Thousands of Employees)**

| Average for year | Air-frame | Engine | Pro-pellers | Other Aircraft and Equipment | Total |
|---|---|---|---|---|---|
| 1939 | 45.1 | 11.3 | n.a. | n.a. | 63.2 |
| 1944 | 815.5 | 339.7 | n.a. | n.a. | 1,296.6 |
| 1949 | 175.3 | 53.5 | 8.2 | 27.0 | 264.1 |
| 1953 | 472.4 | 174.7 | 17.7 | 114.2 | 779.0 |
| 1956 | 499.1 | 165.6 | 16.9 | 132.8 | 814.4 |
| 1957[1] | 553.9 | 183.0 | 20.6 | 148.3 | 905.8 |

**SALES AND EARNINGS**

| Year | 12 Major Airframe Companies: Net Sales (Millions of dollars) | Net Profits (Millions of dollars) | Profit to Sales (per cent) | All Mfg. Ind. Profit to Sales (per cent) |
|---|---|---|---|---|
| 1939 | $ 141.0 | $ 14.6 | 10.3 | n.a. |
| 1944 | 5,766.3 | 58.6 | 1.0 | 3.3 |
| 1949 | 1,131.7 | 36.1 | 3.2 | 6.8 |
| 1953 | 5,120.1 | 116.6[2] | 2.3[2] | 5.3 |
| 1956 | 5,637.1 | 156.5[2] | 2.8[2] | 6.0 |

**BACKLOG**
**(Millions of Dollars)**

| Year | Aircraft and Parts | Engines and Parts | Propellers and Parts | other Products and services | Total |
|---|---|---|---|---|---|
| 1949, Dec. 31 | $ 2,013 | $ 749 | $ 91 | $ 157 | $ 3,010 |
| 1953, Dec. 31 | 11,604 | 4,080 | 218 | 851 | 16,753 |
| 1956, Dec. 31 | 11,784 | 4,064 | 191 | 2,346 | 18,385 |
| 1957, March 31 | 11,295 | 4,068 | 194 | 2,252 | 17,809 |

[1]—April 1957.
[2]—Subject to renegotiation.
Source: Aircraft Industries Ass'n of America, Inc.

The Air Force spent over $400 million to equip the huge federal-owned plant south of Chicago to produce these engines. A year ago it appeared that Ford would be producing at the rate of over $300 million a year for some time to come. It will not now build the newer J-75 and will only complete its backlog of J-57. It probably will be closed next year and marked as a standby plant. Its closing will be felt by a number of subcontractors in the Middle West.

A little over a year ago Curtiss-Wright took over the management of Studebaker-Packard. The Air Force had recently cancelled a Curtiss-Wright contract for the development of the J-67 jet engine after over $60 million had been spent. The bankers who were putting up the $35 million to close the deal asked that Curtiss-Wright show commitments for further military business.

President Roy Hurley negotiated with Secretary Wilson and ex-Treasury Secretary George Humphrey. The "adept bargain" he drove with them included these three main commitments.

1. The Air Force would transfer and continue percentage-wise the subcontracts that Studebaker-Packard held for parts for the Ford jet engines.

2. The Air Force would issue $93 million—later raised to $50 million – for facility contracts for laboratories and factories in the Quehanna area of Northern Pennsylvania. This much publicized project was to have large contracts for the ramjet engines for the Navaho missile. Less than one mil-

### *Statistical Data on Leading Aircraft Companies*

| | 1st 6 Months: Net Sales 1956 (Millions) | Net Sales 1957 (Millions) | Net Profit Margin 1956 % | Net Profit Margin 1957 % | Net Per Share 1956 | Net Per Share 1957 | Full Year: Earned Per Share 1955 | Earned Per Share 1956 | Dividend Per Share 1956 | Dividend Per Share Indicated 1957 | Price Range 1956-1957 | Recent Price | Div. Yield |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BEECH AIRCRAFT** W.C. (mil.) '55—$8.9; '56—$11.5 | $56.1[1] | $75.6[1] | 4.0%[1] | 3.2%[1] | $2.75[1] | $3.01[1] | $4.35 | $4.05 | $1.20 | $1.20[2] | 31¼-17¾ | 21 | 5.7% |
| **BELL AIRCRAFT** W.C. (mil.) '55—$22.7; '56—$22.7 | 98.9 | 103.3 | 3.2 | 2.0 | 1.23 | .79 | 2.25 | 2.21 | 1.25 | 1.25 | 27 -16⅛ | 16¼ | 7.8 |
| **BOEING AIRPLANE** W.C. (mil.) '55—$96.7; '56—$99.3 | 407.3 | 651.8 | 3.5 | 2.5 | 2.22 | 2.47 | 4.66 | 4.82 | 1.25[2] | 1.00 | 65⅜-34⅝ | 37 | 2.7 |
| **CURTISS-WRIGHT** W.C. (mil.) '55—$124.8; '56—$116.5 | 279.1 | 313.3 | 7.4 | 6.6 | 2.76 | 2.72 | 4.74 | 5.64 | 2.50 | 3.00 | 49¾-26¾ | 39 | 7.6 |
| **DOUGLAS AIRCRAFT** W.C. (mil.) '55—$83.5; '56—$87.3 | 453.0 | 565.5 | 2.8 | 2.9 | 3.46 | 4.50 | 7.65 | 8.96 | 4.00 | 4.00 | 95⅛-65¼ | 65¼ | 6.1 |
| **FAIRCHILD ENG. & AIR.** W.C. (mil.) '55—$18.4; '56—$19.3 | 69.5 | 80.3 | 9.5 | 5.3 | .22 | .14 | 1.41 | .64 | .25 | .25 | 15⅝- 9 | 9 | 2.7 |
| **GENERAL DYNAMICS** W.C. (mil.) '55—$125.2; '56—$182.5 | 414.4 | 726.0 | 2.6 | 2.5 | 1.40 | 2.32 | 2.82 | 4.14 | 1.60 | 2.00 | 68⅝-37¾ | 54 | 3.7 |
| **GRUMMAN AIRCRAFT** W.C. (mil.) '55—$38.3; '56—$36.6 | 38.9[3] | 39.5[3] | 4.5[3] | 2.2[3] | .80[3] | .41[3] | 4.43 | 3.50 | 2.00 | 2.00 | 35⅞-22¼ | 22½ | 9.0 |

**(W.C.)—Working capital.**
**[1]—9 mos. ended June 30.**
**[2]—Plus stock.**
**[3]—1st Quarter.**

**Beech Aircraft**: A major producer of single and twin-engine planes for civilian, foreign, military contracts. Backlog increased to $113 million as of March 31, 1957 from $84 million a year previous. Sustained earnings expected over coming months. (Rating C-2).

**Bell Aircraft**: Demand for helicopters, electronic equipment, rocket motors and guided missiles should sustain earnings. Dividends may again total $1.25 a year which provides a liberal yield. (Rating C-2).

**Boeing Airplane**: Net income this year is expected to increase over the $4.82 a share of 1956, despite the stretchout of B-52 and KC-135 programs recently. Production of the Bomarc guided missile will aid operations. Deliveries of commercial jet transports scheduled for late 1958 will offset to some extent cutbacks in military contracts. (Rating A-1).

**Curtiss-Wright**: Commercial business is increasing and net this year should gain over the record level of last year. The management contract with Studebaker-Packard Corp. adds speculative possibilities. (Rating B-1).

**Douglas Aircraft**: Although there have been some recent cutbacks in defense contracts, this large manufacturer has substantial orders for guided missiles and commercial planes and the latter enhances the outlook for late 1958 and 1959. Thus commercial business should gain substantially and profit should be satisfactory. (Rating A-2).

**Fairchild Engine & Airplane**: Net income will continue to be adversely affected by heavy development and research expenditures. Dividends last year were only 25 cents a share, and at best, the same amount may be paid this year. This is one of the more speculative issues in the aircraft industry. (Rating C-3).

**General Dynamics**: Backlog approximated $2 billion on June 30, 1957 and contracts then under negotiation were estimated at an additional $654 million. Company plans to build up its commercial buisness to 50% of annual volume and so not be so dependent on defense contracts. Management is capable and progressive. Company is expanding in guided missile, atomic developments and electronics and this enhances the longer term growth prospects (Rating A-1).

**Grumman Aircraft**: This important Navy plane producer faces a declining backlog. However, earnings may this year approximate the $3.50 earned in 1956 and the 50 cent quarterly dividend is expected to be maintained. (Rating C-2).

**RATINGS:** **(A)—Best Grade.**
**(B)—Good Grade.**
**(C)—Speculative.**
**(D)—Unattractive.**

**1—Improved earnings trend.**
**2—Sustained earnings trend.**
**3—Lower earnings trend.**

lion was spent when the Navaho was cancelled.

3. Curtiss-Wright was to receive a turbofan engine design contract of $2.2 million which would be followed by a $63 development contract if the design was satisfactory. This project has been cancelled at a cost of less than two million to the Air Force.

Air Secretary Douglas pointed out to industry the changed character of military business due to the development of the guided missile. Procurement of the Air Force may drop one-half billion to a new figure of seven billion annually. Using fiscal 1956 as a base airframe expenditures in "a few years" may drop from four to two billion annually. Missile spending will rise from one-half billion to 2.8 billion. Engines will drop from one and a half to one billion. Electronic equipment, other than missiles, will rise from three-quarters of a billion to 1.3 billion.

One of the biggest problems of the Air Force is to find funds for the Convair B-58 medium bomber. This newest of aircraft has exceeded all of its specifications, and is going through a series of time-consuming tests to improve reliability. Its four J-79 engines plus one spare will cost $230,000 each. Its fabulous electronic equipment is expected to cost over two million. On a production order of 200 it would appear the total cost would be around six million per plane.

This is about the cost of the Boeing B-52 heavy bomber of several years (*Please turn to page* 740)

### *Statistical Data on Leading Aircraft Companies (Continued)*

| | 1st 6 Months | | | | | | Full Year | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Net Sales | | Net Profit Margin | | Net Per Share | | Earned Per Share | | Dividend Per Share | | | | |
| | 1956 | 1957 | 1956 | 1957 | 1956 | 1957 | 1955 | 1956 | 1956 | Indicated 1957 | Price Range 1956-1957 | Recent Price | Div. Yield |
| | (Millions) | | % | % | | | | | | | | | % |
| LOCKHEED AIRCRAFT<br>W.C. (mil.) '55—$85.0; '56—$108.2 | $187.6[7] | $195.4[7] | 2.3% | 1.2% | $1.56[7] | $1.16[7] | $5.12 | $5.10 | $2.40 | $2.40[4] | 58 7/8-34 3/8 | 35 | 6.8% |
| MARTIN CO.<br>W.C. (mil.) '55—$45.1; '56—$37.1 | 138.9 | 209.3 | 3.2 | 2.1 | 1.64 | 1.51 | 4.92 | 3.73 | 1.60 | 1.60[4] | 47 7/8-27 1/2 | 27 1/2 | 5.9 |
| McDONNELL AIRCRAFT<br>W.C. (mil.) '55—$12.7; '56—$17.6 | 186.2[1] | 335.2[1] | 3.6[1] | 2.8[1] | 4.55[1] | 6.34[1] | 3.17 | 4.55 | .50[4] | .50[4] | 44 3/4-24 1/4 | 29 | 1.7 |
| NORTH AMERICAN AVIATION<br>W.C. (mil.) '55—$70.8; '56—$111.9 | 635.7[2] | 937.0[2] | 3.5[2] | 2.8[2] | 3.25[2] | 3.32[2] | 4.71 | 3.59 | 1.92 | 1.60 | 49 7/8-24 | 24 | 6.6 |
| NORTHROP AIRCRAFT<br>W.C. (mil.) '55—$18.1; '56—$24.1 | 226.9[3] | 204.3[3] | 1.9[3] | 1.7[3] | 2.98[3] | 2.33[3] | 7.89 | 3.28 | 1.60 | 1.60 | 29 1/8-21 1/4 | 22 | 7.2 |
| REPUBLIC AVIATION<br>W.C. (mil.) '55—$33.0; '56—$34.0 | 163.1 | 168.3 | 2.1 | 2.1 | 2.38 | 2.49 | 10.02 | 5.01 | 2.00 | 2.00 | 43 1/2-21 3/4 | 23 | 8.6 |
| UNITED AIRCRAFT<br>W.C. (mil.) '55—$88.7; '56—$138.3 | 460.1 | 606.0 | 4.4 | 4.2 | 2.33 | 2.77 | 6.14 | 7.06 | 3.00 | 3.00 | 96 1/2-60 1/8 | 61 | 4.9 |

**(W.C.)—Working capital.**
**[1]—Years ended June 30.**
**[2]—9 mos. ended June 30.**
**[3]—9 mos. ended April 30.**
**[4]—Plus stock.**
**[5]—6 mos. ended April 30.**
**[6]—Years ended April 30.**
**[7]—1st Quarter.**

**Lockheed Aircraft:** Operations of this major aircraft producer are well-diversified. Commercial and military orders should continue substantial. Development costs may cause a moderate decline in earnings this year but dividends should continue at 60 cents quarterly. (Rating B-3).

**Martin Co.:** Earnings this year probably will increase moderately over the $3.73 a share of 1956 and dividends at 40 cents quarterly should continue. Guided missile production should increase in 1958. (Rating C-1).

**McDonnell Aircraft:** This leading supplier of Navy and Army fighter planes has a substantial backlog and the outlook for the current year appears favorable. Cash dividends are conservative but further occasional stock payments may be made. (Rating C-1).

**North American Aviation:** This company is engaged in rocket engines, electronics, guided missile and atomic energy work. Profit margins probably will be retarded by heavy research and development expenditures. Recently received a substantial order for air-to-surface missile, to be launched from long-range bombers. The latter is an offset to reduction in some previous orders. (Rating B-2).

**Northrop Aircraft:** Substantial orders for the Snark guided missile and for T-38 jet training planes may improve operations for the current fiscal year which just started August 1. The 40 cent quarterly dividend yields a generous return. (Rating C-1).

**Republic Aviation:** Deliveries of the F-84-F ending in August 1957 indicate lower earnings this year but the new F-105 fighter bomber plane should get into full production late next year. (Rating C-3).

**United Aircraft:** Country's largest manufacturer of aviation engines and helicopters had a backlog of $2,050,000,000 as of June 30, 1957. Operations in the guided missile field will expand. Has good earning and dividend record. Earnings should show an increase this year. (Rating A-1).

**RATINGS:** **(A)—Best Grade.**
**(B)—Good Grade.**
**(C)—Speculative.**
**(D)—Unattractive.**

**1—Improved earnings trend.**
**2—Sustained earnings trend.**
**3—Lower earnings trend.**

# Shippers and Shipbuilders Looking to 1958

By MARVIN S. RAPHAEL

The shipbuilding industry is currently entering a period of higher sales and better profit margins. For one thing, the contracts with relatively low profit margins which were written prior to the Suez crisis are now being worked off by various yards. Orders taken in the past year have much more favorable margins, which should result in better earnings for some companies for the next year or two. In addition, backlogs of most shipyards are at all time records. While many stocks in this group appear to be discounting near-term prospects, the longer range outlook for this industry still looks favorable.

At present, the single most important aspect of commercial shipbuilding is the tanker boom. This received its biggest impetus last year when the closing of the Suez Canal convinced members of the oil industry and independent operators of the necessity for larger, faster and more mdern tankers capable of circumventing the Canal. Actually, there had been a tanker boom in foreign yards for some time since costs abroad were considerably lower than those at home. The U. S. Government, realizing the difference in wages paid here and abroad, offset this by offering construction subsidies to ship operators who would place orders in this country.

Ship construction in this country has also been sparked by the Maritime Administration policy known as "trade out and build". This allows the transfer of American flag vessels to foreign registry in exchange for the building of new tonnage in domestic yards. It should be noted, however, that with the opening of Suez again, a lot of the pressure for early delivery of tankers has been removed so that many delivery dates have been extended or stretched out. Tanker business is still dominant and accounts for approximately a billion dollars of commercial orders on domestic shipbuilders' books.

### Non-Tanker Construction Looms Large

Even though tankers are still of major importance, other types of vessel construction are also expected to become significant. This stems from the Merchant Marine Act of 1936 which calls for the replacement of passenger and dry-cargo vessels (those operated under subsidy) when they are over 20 years of age. Much of our Merchant Fleet was built between 1940 and 1945 and cannot compete effectively with newer and faster ships built since World War II. This factor is important now and will become increasingly so because a substantial part of this fleet is becoming obsolete and will have to be replaced in the next ten years. Such a venture could generate over $2.5 billion in orders for our

domestic builders. Although the economy drive casts some doubt on the future of the U. S. shipbuilding subsidy program, it does seem likely that it will be sustained since an adequate merchant fleet is necessary for defense. In this connection, it is of interest that recently a large privately owned shipper announced plans for a $500 million cargo ship replacement program with the Government underwriting 40%.

### Naval Program is Biggest Prop

Another favorable prospect for the industry is that recently an announcement was made by the Government that the contract for building the country's first nuclear-powered merchant ship will be awarded later in the year. While no one expects the atomic vessel to be economically competitive with conventional ships for some time, this does mark the beginning of what might eventually become a whole new phase of shipbuilding.

Also of importance will be the completion of the St. Lawrence Seaway in 1959 since it will open the Great Lakes to ocean-going vessels and thus increase the need for more ships. While other new developments in fishyback" or "roll-on, roll-off" type of shipping may eventually have a marked effect on shipbuilding, there are many hurdles to overcome before this can be considered a success. Nevertheless, there appears to be a definite future for this type of vessel and over the longer term, it should be of extreme importance to both the shipping and shipbuilding industries.

The largest factor in shipbuilding is still the Navy. Of significance is the fact that the Navy is now in the process of making a transition to an entirely new kind of fleet. Power may come primarily from atomic energy while fire power will emphasize guided missiles. The Navy also has an active conversion and replacement program since combat vessels become obsolete faster than their commercial counterparts. Heavy support for a strong Navy and Merchant Marine is seen by the fact that in the President's budget for fiscal 1958, a 12% increase in ship construction funds to $1.6 billion was requested. This is more significant when one considers the attempts to curtail spending. However, it is quite clear that if we are to maintain a modern active fleet of sufficient size, large expenditures will have to be made over the longer term.

With so many factors enhancing the industry's outlook, the shipbuilding industry appears to have favorable growth prospects. It should be realized, however, that within this framework, a number of divergent trends in individual company operations will be shown. **American Shipbuilding** for example, will be an important beneficiary of the opening of the St. Lawrence Seaway sometime in 1959. Substantial business will, undoubtedly, accrue to the heavily industrialized Great Lakes area and with unrestricted access to the sea, shipping and shipbuilding should have a sharp upsurge. As one of the largest units in ship repair and construction in that area, American Ship stands to (*Please turn to page* 734)

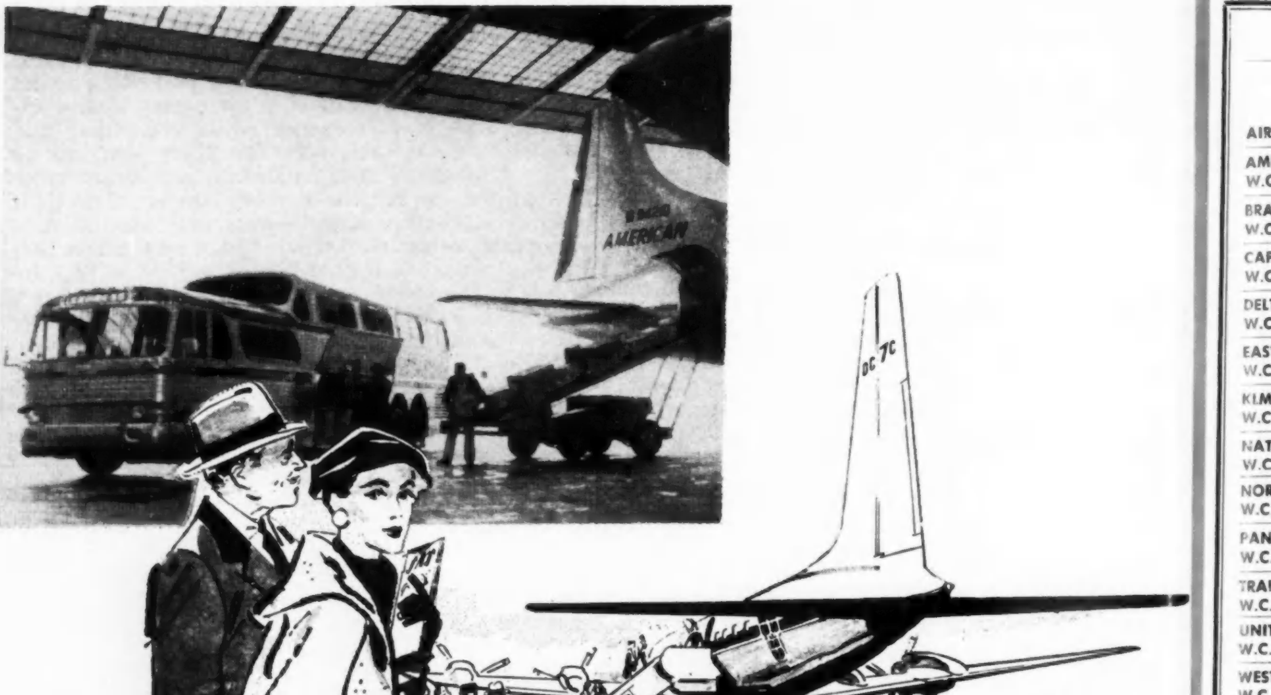
***Position of Leading Shipbuilders and Shippers***

| | 1st 6 Months | | | | | | Full Year | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Net Sales (Millions) | | Net Profit Margin | | Net Per Share | | Earned Per Share | | Dividend Per Share | | | | |
| SHIPBUILDING | 1956 | 1957 | 1956 % | 1957 % | 1956 | 1957 | 1955 | 1956 | 1956 | Indicated 1957 | Price Range 1956-1957 | Recent Price | Div. Yield |
| AMERICAN SHIP BUILDING<br>W.C. (mil.) '55—$5.8; '56—$6.7 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | $1.32[3] | $5.62[3] | $3.00 | $3.00 | 105 -56 | 62 | 4.8% |
| BATH IRON WORKS<br>W.C. (mil.) '55—$9.8; '56—$12.8 | $ 20.5 | $ 22.2 | 5.4% | 5.0% | $2.67 | $2.65 | 6.19 | 6.71 | 2.60 | 3.60 | 71⅜-43 | 55 | 6.5 |
| BETHLEHEM STEEL<br>W.C. (mil.) '55—$809.9; '56—$683.8 | 1,269.9 | 1,363.3 | 7.5 | 7.6 | 2.39 | 2.26 | 4.52 | 3.83 | 2.12 | 2.40 | 50⅝-35⅛ | 45 | 5.3 |
| NEWPORT NEWS SHIPBLDG.<br>W.C. (mil.) '55—$27.9; '56—$28.0 | 49.9 | 81.6 | 3.9 | 3.8 | 2.49 | 3.88 | 6.03 | 4.25 | 2.50 | 2.50 | 87½-50 | 77 | 9.2 |
| NEW YORK SHIPBUILDING<br>W.C. (mil.) '55—$23.6; '56—$20.7 | 34.7 | 32.6 | 5.5 | 4.0 | 1.49 | 1.02 | 1.43 | 2.25 | ...... | .70[1] | 58 -19 | 28 | 2.5 |
| TODD SHIPYARD CORP.<br>W.C. (mil.) '55—$22.8; '56—$24.4 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 7.07[2] | 18.46[2] | 4.00 | 5.75 | 163¾-63½ | 131 | 4.3 |

(W.C.)—Working capital.
n.a.—Not available.
1—Paid so far this year.
2—Years ended March 31, 1956 & 1957.
3—Year ending June 30.

| SHIPPING | Net Sales 1956 | Net Sales 1957 | Net Profit Margin 1956 % | Net Profit Margin 1957 % | Net Per Share 1956 | Net Per Share 1957 | Earned Per Share 1955 | Earned Per Share 1956 | Dividend 1956 | Dividend Indicated 1957 | Price Range 1956-1957 | Recent Price | Div. Yield |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AMERICAN EXPORT LINES<br>W.C. (mil.) '55—$13.7; '56—$14.2 | n.a. | n.a. | n.a. | n.a. | $2.58 | $2.68 | $3.82 | $9.53 | $1.87 | $2.00 | 31¼-17⅜ | 26 | 7.6% |
| AMER. HAWAIIAN S.S.<br>W.C. (mil.) '55—$6.5; '56—$14.1 | n.a. | n.a. | n.a. | n.a. | n.a. | .87 | 7.71 | 8.63 | ...... | ...... | 142½-86 | 96 | ...... |
| MOORE McCORMACK LINE<br>W.C. (mil.) '55—$8.2; '56—$12.2 | $ 29.4 | $ 35.8 | 7.8% | 7.9% | 1.15 | 1.26 | 2.81 | 3.02 | 1.50 | 1.50 | 25¼-18⅝ | 21 | 7.1 |
| U.S. LINES<br>W.C. (mil.) '55—$13.9; '56—$16.9 | n.a. | n.a. | n.a. | n.a. | 2.70[1] | 3.21 | 5.34 | 9.79 | 1.62 | 2.00 | 37⅛-22⅝ | 29 | 6.8 |

(W.C.)—Working capital.
n.a.—Not available.
1—Before $1.3 million credit for prior years adjustments.




# *TRANSPORTATION:*
# *Airlines and Buses*

By RICHARD COLSTON

It has been a long time since owners of shares in the nation's airlines have had reason for rejoicing over prospects for the industry in which they have invested. Air transport stocks have been in disfavor for a couple of years. There has been concern over declining earnings and the financial problems likely to be encountered in an industry-wide transition to jet aircraft from conventional propeller-driven craft. Vast expenditures must be faced in purchase of new equipment and in training crews for the faster planes. Accordingly, retention of a large part of earnings seems necessary and, in many instances, additional stock or convertible debentures may need to be issued.

Managements of major carriers had hoped that relief might be provided by an interim rate increase. Strong arguments were advanced at the recent hearing conducted by the Civil Aeronautics Board in favor of the proposed 6 per cent emergency fare rise in spite of the fact that Washington observers held out little hope of approval at this time. It was no surprise, then, when the Board rejected the request early in August and deferred consideration of the question until completion of a broad inquiry into the industry's entire rate structure. This action intensified disappointments experienced by holders of air transport securities.

The possibility that what is really needed is not so much higher fares as a reappraisal of competition for available traffic, is suggested by examination of the pertinent statistics. These indicate that inflationary tendencies in operating costs have not had such an adverse effect on results as has sharp decline in the load factor on many routes. Opening of additional routes to smaller lines and introduction of new equipment in the last year or two have combined to intensify competition. As a consequence, the proportion of seats occupied on many flights has fallen to uneconomically low levels. Operating costs for a full planeload are virtually the same as for a plane only half filled; hence, in the latter case, margins (*Please turn to page* 738)

## *Statistical Data on Two Transportation Groups*

| AIRLINES | 1st 6 Months: Revenues 1956 (Millions) | Revenues 1957 (Millions) | Net Profit Margin 1956 % | Net Profit Margin 1957 % | Net Per Share 1956 | Net Per Share 1957 | Full Year: Earnings Per Share 1955 | Earnings Per Share 1956 | Dividend Per Share 1956 | Dividend Per Share Indicated 1957 | Price Range 1956-57 | Recent Price | Div. Yield % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AMERICAN AIRLINES<br>W.C. (mil.) '55—$56.2; '56—$24.4 | $140.3 | $152.0 | 6.9% | 3.7% | $1.22 | $ .67 | $2.32 | $2.40 | $1.00 | $1.00 | 26¼-17½ | 18 | 5.5% |
| BRANIFF AIRWAYS<br>W.C. (mil.) '55—$2.3; '56—$2.5 | 12.3[6] | .4.2[6] | 2.9[6] | 1.6[6] | .20[6] | .08[6] | .91 | .64 | .60 | .15[3] | 14⅞- 8⅛ | 8⅝ | 1.8 |
| CAPITAL AIRLINES<br>W.C. (mil.) '55—$2.2; '56—$d.4 | 28.1 | 44.1 | [d]3.3 | [d]1.7 | [d]1.03 | [d] .85 | 4.55 | [d]1.38 | ...... | ...... | 41½-17⅝ | 19 | .... |
| DELTA AIR LINES<br>W.C. (mil.) '55—$6.0; '56—$3.4 | 66.8[1] | 78.5[1] | 5.0[1] | 3.3[1] | 3.38[1] | 2.34[1] | 2.62 | 4.70 | 1.20[4] | 1.20 | 40 -20⅛ | 21 | 5.7 |
| EASTERN AIRLINES<br>W.C. (mil.) '55—$54.5; '56—$15.8 | 119.0 | 138.2 | 6.3 | 2.6 | 2.71 | 1.27 | 5.32 | 5.17 | 1.00[4] | 1.00 | 57¼-35 | 36 | 2.7 |
| KLM ROYAL DUTCH AIRLINES<br>W.C. (mil.) '55—$ ..... ; '56—$25.3 | 50.7 | 61.3 | 4.5 | 4.0 | 1.34 | 1.38 | 3.82 | 4.60 | [5] | [5] | 36⅞-29 | 31 | .... |
| NATIONAL AIRLINES<br>W.C. (mil.) '55—$4.7; '56—$4.8 | 41.0[2] | 42.7[2] | 6.9[2] | 5.5[2] | 2.76[2] | 2.25[2] | 3.01 | 4.14 | 1.00 | 1.00 | 30 -18½ | 18½ | 5.5 |
| NORTHWEST AIRLINES<br>W.C. (mil.) '55—$3.9; '56—$7.7 | 36.0 | 38.3 | 3.8 | 2.3 | 1.22 | .66 | 1.80 | 2.18 | .80 | .80 | 19⅜-13 | 13¼ | 6.1 |
| PAN AMER. W. AIRWAYS<br>W.C. (mil.) '55—$23.8; '56—$12.1 | 59.5[6] | 66.7[6] | 4.5[6] | [d]2.2[6] | .44[6] | [d] .24[6] | 1.66 | 2.31 | .80 | .80 | 21¼-14 | 14½ | 5.7 |
| TRANS WORLD AIRLINES<br>W.C. (mil.) '55—$8.8; '56—$7.0 | 112.1 | 119.5 | [d] .5 | [d] .9 | [d] .51 | [d] .19 | 1.62 | [d] .70 | ...... | ...... | 28⅞-12½ | 12½ | .... |
| UNITED AIRLINES<br>W.C. (mil.) '55—$12.1; '56—$28.5 | 126.4 | 133.0 | 4.1 | 2.2 | 1.64 | .88 | 3.36 | 4.55 | 1.50 | .50[4] | 44¾-25 | 26½ | 1.9 |
| WESTERN AIR LINES<br>W.C. (mil.) '55—$2.7; '56—$4.5 | 9.3 | 19.6 | 12.0 | 7.5 | 1.56 | 1.78 | 2.67 | 3.91 | .80[4] | .80[4] | 25¾-18⅜ | 24 | 3.3 |

(W.C.) Working capital.
[d]—Deficit.
[1]—Years ended June 30.
[2]—9 mos. ended March 31.
[3]—Paid thus far in 1957.
[4]—Plus stock.
[5]—Paid 6% stock in 1956 & 7% in 1957
[6]—1st Quarter.

**American Airlines:** Operating largest domestic system, steady growth is being reflected in rising traffic, but mounting costs pose serious handicap on earnings. Plans for enlargement of fleet well formulated. (B3)

**Braniff Airways:** Expansion in route mileage holds promise of long-range traffic growth, but current operations have been handicapped by rising costs and inadequate fares. Dividend policy remains uncertain. (C3)

**Capital Airlines:** Although company still has financial problems incident to transition to British turbo-prop fleet, earnings have registered encouraging comeback this year. Stock may respond to better outlook. (C3)

**Delta Air Lines:** Moderate improvement in operating results appears possible now that management has shown ability to recover from burden imposed in initiation of service on New York-Atlanta route. Dividend safe. (B3)

**Eastern Air Lines:** One of financially strongest lines serving populous eastern routes and having well established earning power. High costs likely to handicap 1957 earnings. Modest dividend well covered. (A3)

**KLM Royal Dutch Airlines:** One of largest air transport services in world showing excellent management and strong growth potentials. Competition likely to increase in many areas. Cost factors under good control. (B2)

**National Airlines:** Keen competition for traffic between North Atlantic areas and Florida tends to put pressure on margins. Continued moderate decline in earnings indicated unless higher fares are permitted this winter. (C3)

**Northwest Airlines:** Low traffic density along major routes to Far East poses serious handicap on operations, especially in view of impending need for meeting competition with high speed jet transports. (C3)

**Pan-Am. World Airways:** Fare relief on overseas routes needed to boost revenues. Award of additional routes, such as New York-Mexico City would help. End of subsidy handicaps envisioned in another year. (B3)

**Trans World Airlines:** Moderate improvement in operating results indicated this year, but financing problems incident to shift to new transport planes appear to bar hope of early initiation of dividends. (C3)

**United Air Lines:** Higher labor costs and a jump in depreciation charges point to sharp decline in net profit this year from 1956 showing of $4.55 a share. Larger share of earnings being retained for fleet expansion. (B3)

**Western Air Lines:** Increased traffic on popular Los Angeles-Las Vegas route and good cost control aiding earnings recovery, but cost incident to establishment of new routes expected to hold down 1957 earnings. (C3)

| BUS & TRUCKING | Revenues 1956 | Revenues 1957 | Net Profit Margin 1956 % | Net Profit Margin 1957 % | Net Per Share 1956 | Net Per Share 1957 | Earnings Per Share 1955 | Earnings Per Share 1956 | Dividend Per Share 1956 | Dividend Per Share Indicated 1957 | Price Range 1956-57 | Recent Price | Div. Yield % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FIFTH AVE. COACH<br>W.C. (mil.) '55—$ .1; '56—$1.1 | 33.0 | 32.9 | 3.4 | 4.0 | n.a. | n.a. | 2.85 | 3.47 | 2.50 | 2.50 | 30½-23⅞ | 24 | 10.4 |
| GREYHOUND<br>W.C. (mil.) '55—$24.6; '56—$30.9 | 107.8 | 120.3 | 2.6 | 2.5 | .25 | .26 | 1.18 | 1.27 | 1.00 | 1.00 | 17½-14¼ | 15 | 6.6 |
| HERTZ CORP.<br>W.C. (mil.) '55—$ .8; '56—$1.5 | 12.3[1] | 16.7[1] | 5.7[1] | 5.5[1] | .48[1] | .51[1] | 1.84 | 2.63 | 1.00[2] | 1.00 | 42⅛-27¼ | 38 | 2.5 |
| NATIONAL CITY LINES<br>W.C. (mil.) '55—$5.0; '56—$5.4 | 12.9 | 13.0 | 11.6 | 12.7 | 1.08 | 1.20 | 2.74 | 2.45 | 1.90 | 2.00 | 26¼-20 | 22 | 9.0 |
| TWIN CITY RAPID TRANSIT<br>W.C. (mil.) '55—$ .1; '56—$ .4 | 7.6 | 7.2 | [d] .9 | [d]1.7 | [d] .22 | [d] .33 | [d] .02 | .12 | 1.70 | 1.80 | 18 -14 | 15 | 12.0 |
| U. S. FREIGHT<br>W.C. (mil.) '55—$11.0; '56—$8.0 | 36.6[1] | 41.3[1] | 1.1[1] | 1.7[1] | .45[1] | .86[1] | 2.21 | 2.56 | 1.50 | 1.62 | 34¾-18 | 32 | 5.0 |

**Fifth Avenue Coach Lines:** With benefit of possible economies from acquisition, some offset may be gained to rising operating costs, but earnings may dip slightly this year. Dividend of $2 plus possible extra secure. (C3)

**Greyhound Corp.:** Modest earnings improvement anticipated in reflecting increased traffic encouraged by new equipment. Handicap of high labor factor poses problem. Adequate coverage for $1 dividend indicated. (B1)

**Hertz Corporation:** Steady expansion in rent-a-car service area and increasing popularity of transportation idea encourage growth outlook. Moderate improvement in earnings to about $3 a share indicated for 1957. (B1)

**National City Lines:** Operating difficulties encountered in some sections of country involved in racial disputes and mounting labor costs threaten to reduce earnings to point where coverage on $2 dividend is threatened. (C3)

**Twin City Rapid Transit:** Increased fares necessitated by rising costs appear to be reducing traffic volume. Moderate drop in earnings indicated this year, but dividend may hold at $1.80 rate though not earned. (C3)

**U. S. Freight:** Relatively high rate of industrial activity expected to sustain traffic volume for this major freight forwarder. Further improvement in earnings indicated despite higher costs. Dividend seems secure. (B1)

(W.C.)—Working capital. [d]—Deficit. [1]—1st Quarter. [2]—Plus stock.

RATING: A—Best grade. B—Good grade. C—Speculative. D—Unattractive.
1—Improved earnings trend. 2—Sustained earnings trend 3—Lower earnings trend.


# FOR PROFIT AND INCOME

**Support Level**

Some analysts said that the market ought to meet support around the 490-492 level of the Dow industrial average. The sell-off did halt there momentarily; but the level was broken before this writing. Giving themselves a bit more leeway, some say the 480-490 area "should hold on test". The least optimistic say "the real support level" is in the area 450-465 – in other words, from moderately above to slightly under the February low of 454.82. We say: Wait and see.

**Excess**

What is excess in the stock market? Those who think it only means too much buying on margin and too much speculation in low-priced cats and dogs can correctly contend that excess has long been absent in this market. But the criterion is very far from the whole story. There is excess in any stock, regardless of quality and regardless of predominantly cash buying, when its price goes too high in relation to earnings and dividends that can reasonably be expected for an extended time to come. In these terms, there was certainly excess at the market's July high, and particularly so in the growth-glamor stocks – excess for which the inevitable penalty is now in process of being paid.

**Fads**

Market fads come and go, making profits for the nimble but leaving many speculative-investors hung up finally with big losses. There have been speculative booms in television stocks, air transport stocks and any number of others—all now more or less in the doghouse. Not long ago there was the feverish speculation in uranium stocks, the majority of them with nothing to offer but imaginative possibilities. There has been much imaginative talk about possibilities in titanium, other rare metals, exotic fuels for missiles. They are all costly to produce; and precariously dependent on military demands. There is romance and glamor in "atomic energy", with possibilities for profits on any considerable scale both conjectural and distant. Some investors still see allure in the magic word "electronic"; but, despite some exceptions here and there, mar-

**INCREASES SHOWN IN RECENT EARNINGS REPORTS**

| | | 1957 | 1956 |
|---|---|---|---|
| Chrysler Corp. | Quar. June 30 | $4.94 | $ .89 |
| Florida Power & Light | 12 mos. June 30 | 2.80 | 2.25 |
| Thompson Products, Inc. | Quar. June 30 | 1.52 | .97 |
| Pullman, Inc. | Quar. June 30 | 2.20 | 1.89 |
| Ford Motor Co. | Quar. June 30 | 1.30 | 1.07 |
| Gabriel Co. | Quar. June 30 | .45 | .04 |
| Liggett & Myers Tobacco | Quar. June 30 | 1.92 | 1.63 |
| Brunswick-Balke-Collender | Quar. June 30 | 2.07 | .94 |
| Clevite Corp. | 6 mos. June 30 | 1.48 | .79 |
| Colgate-Palmolive Co. | Quar. June 30 | 1.04 | .67 |

ket behavior of the stocks has not lived up to imaginative expectations. Numerous small companies have jumped into this business. Numerous big ones have moved partly into it or greatly expanded their previous positions in it. Civilian business is a fraction of the total and intensely competitive; and the low-margin profits on the huge defense business rate below-average market valuations for reasons inherent in military orders. As a general rule in stock selection, we prefer demonstrated earning power and reasonably foreseeable potentials. You do not get them in most "glamor-science" stocks.

**Unusual**

One growth-stock mutual fund switched sizable funds into Reynolds Tobacco "B" in the second quarter. That is such a departure from usual institutional-fund thinking in growth-stock selection that the management considered an explanation appropriate. It pointed out that growth of Reynolds' earnings in four years through 1956 averaged about 25.8% annually, a rate above that of most oils and chemicals in the fund's portfolio. We continue to think that Reynolds is undervalued, at current price around 54, on likely 1957 earnings around $6.70 a share, against 1956's $5.91; that it will probably earn more next year than this; and that the $3.20 dividend will be raised. Based on payout ratios in previous years, it could go to $3.60 and possibly to $3.80. Our guess is declaration of a payment at a $3.60 rate in October or January, with a possible further boost deferred to late 1958. The stock has been held back by the cancer-scare publicity, but been supported by earnings and dividends—thus moving in a limited range for some time. In this "contest", earnings and dividends should win out sooner or later; and it could be fairly soon, since more and more professionals, scanning the list for comparative values, are getting sold on the stock.

**Air Lines**

The recent refusal of the Civilian Aeronautic Board to grant domestic air transport companies a 6% boost in passenger fares came as a shock to some but no great surprise to us. It confirmed earlier indications that the Board is seemingly blind to the industry's severe profit squeeze, and the latter's disturbing implications as regards the companies' ability to finance their coming transition to jet transports. Air line fares have been frozen at the present level for a number of years, while railroad and bus fares have been permitted to rise substantially—and a New York subway ride has gone from a nickel to 15 cents! What is CAB doing? It is continuing a snail-like general "investigation" of air line fares which was ordered, at a silly behest of a Congressional committee as far back as May, 1956, to determine if fares were *excessive*. It will hardly be completed before late 1958. Considering the objective and philosophy of this investigation, how good are the chances that the eventual ruling will be adequately favorable to the industry, if favorable at all? Since nobody can answer the question, the stocks, already depressed, could readily become more so.

**Bonds**

As a result of the Federal Reserve's credit-restriction policy and heavy demand for capital funds, money remains tight. But it appears probable that nearly all of the bond market decline has been seen, and possible that it has been completed. Plant-equipment expansion is flattening out, with some downturn probably not far ahead. Money could be materially easier a year hence, bond yields lower, bond prices higher. Seasoned top-grade corporate bonds are on an average yield basis around 4%, and many new-issue bonds can be had at yields up to 5% or more. In our view, there is considerably more general risk in common stocks than in bonds at this time, regardless of the long-pull inflation theory; and it seems probable that an interim shift ahead to easier money will make present bond purchases at least moderately profitable.

**Preferred Stocks**

The same reasoning applies to preferred stocks. Like bonds they have been in a long bear market, which seems around or not far from termination now. The stocks are most unlikely to get back to their historic 1946 highs when, under Fair-Deal easy-money policy, average yields on better-grade issues receded to a basis around 3.4%, against about 4.8% now. But they could readily get back to last year's best levels, at which yields averaged a little under 4%. Hence, the possibilities for appreciation are fairly substantial, the risk probably low. To illustrate, here are a few high-grade, non-callable, 7% dividend rate preferreds, with comparisons of present prices with 1956 highs: American Can 37½, 1956 high 46; American Smelting 139, 1956 high 174; Bethlehem Steel 141, 1956 high 173; Corn Products 147, 1956 high 180; International Harvester 140, 1956 high 174; and National Biscuit 148, 1956 high 179.

**Stock Groups**

In a further market sag up to this writing, stock groups performing considerably worse than average included: air transport, aluminum, building materials, coal, copper, machinery, metal fabricating, motion pictures, office equipments, oil, railroads, television-radio, shipbuilding, shipping, steel and sulphur. Their behavior reflects excessive prior advances in some cases, uncertain or adverse earnings prospects in others. With few exceptions, groups which have recently fared better than the market are those which had no big upside play in the February-July rise and which

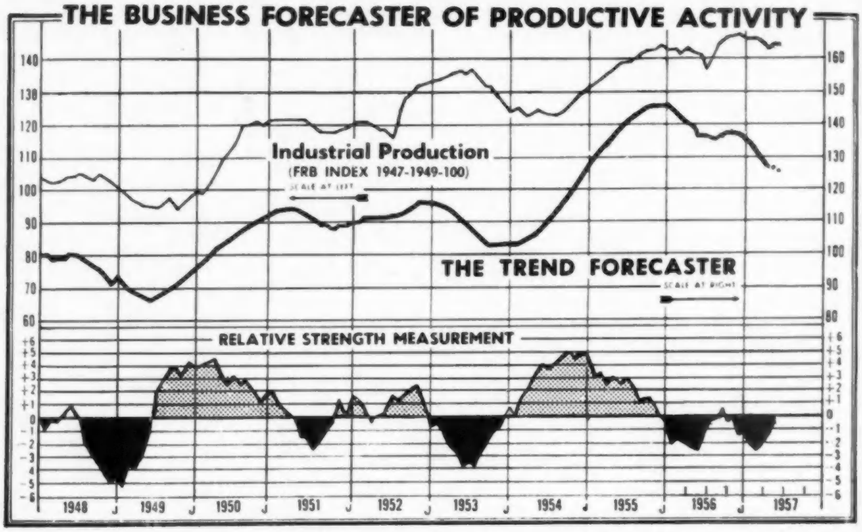
(*Please turn to page* 746)

**DECREASES SHOWN IN RECENT EARNINGS REPORTS**

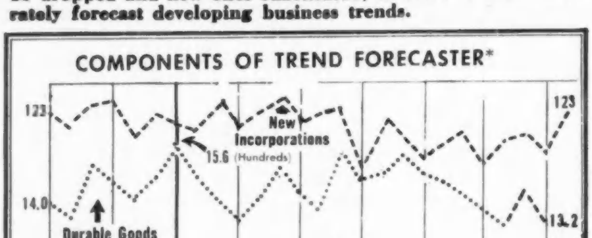
| | | 1957 | 1956 |
|---|---|---|---|
| Ferro Corp. | 6 mos. June 30 | $1.27 | $1.88 |
| Gillette Co. | 6 mos. June 30 | 1.40 | 1.75 |
| Penn-Dixie Cement Corp. | Quar. June 30 | .35 | 1.00 |
| Pennsalt Chemicals Corp. | Quar. June 30 | .72 | 1.01 |
| Sutherland Paper Co. | Quar. June 30 | .83 | 1.12 |
| Barber Oil | 6 mos. June 30 | .08 | .70 |
| Howe Sound Co. | Quar. June 30 | .11 | .36 |
| Allied Products Corp. | Quar. June 30 | .13 | .61 |
| Amer. Radiator & Std. San. | Quar. June 30 | .19 | .48 |
| Erie Railroad | 6 mos. June 30 | .61 | 1.45 |

# the Business

## Business Trend Forecaster*




*With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.




*—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

***We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.***

### Current Indications of the Forecaster

On the basis of figures for the early part of the third quarter, the components of the **Trend Forecaster** have improved considerably since their March low.

In July, housing starts and average hours worked, improved slightly. Stock prices advanced and business failures (inverted) improved. New incorporations in July were notably higher than in June. Industrial raw material prices declined slightly. August may not make as good a showing, however, in view of the sharp decline in stock prices thus far in the month and the drooping tendency of raw materials prices.

In the second quarter, the recovery of housing starts and stock prices and the bottoming out of business failures, acted to bring the **Relative Strength Measure** up to almost zero, although it is still in the negative range.

Because the **Relative Strength Measure** is still in a negative range, the **Trend Foreaster** has continued to decline, but the rate of decline has slowed.

For the time being, the implications of the relatively better action of the **Relative Strength Measurement** and the **Trend Forecaster** must be treated cautiously; they indicate, not an imminent revival, but the achievement of a plateau area. Furthermore, if weakness in stock prices and raw material to mid-August, continues for the rest of the month, the **Relative Strength Measure** will resume its decline.

# Analyst

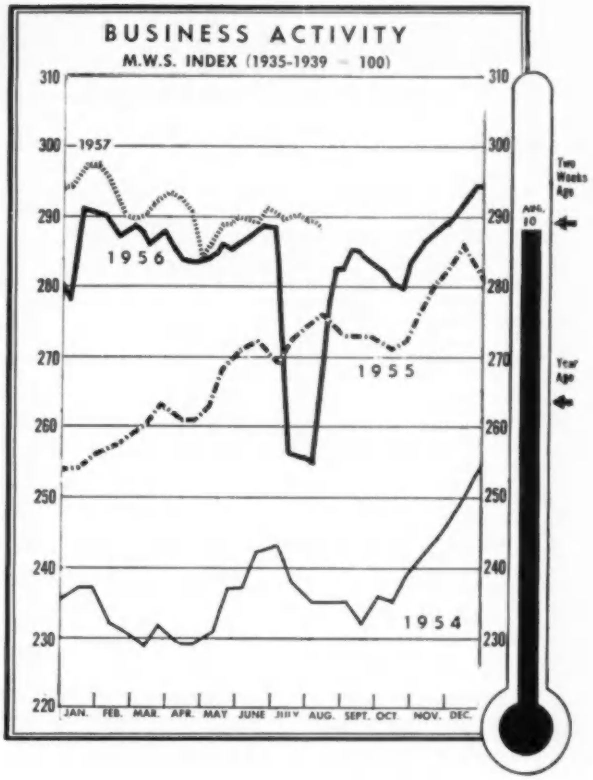
## CONCLUSIONS IN BRIEF

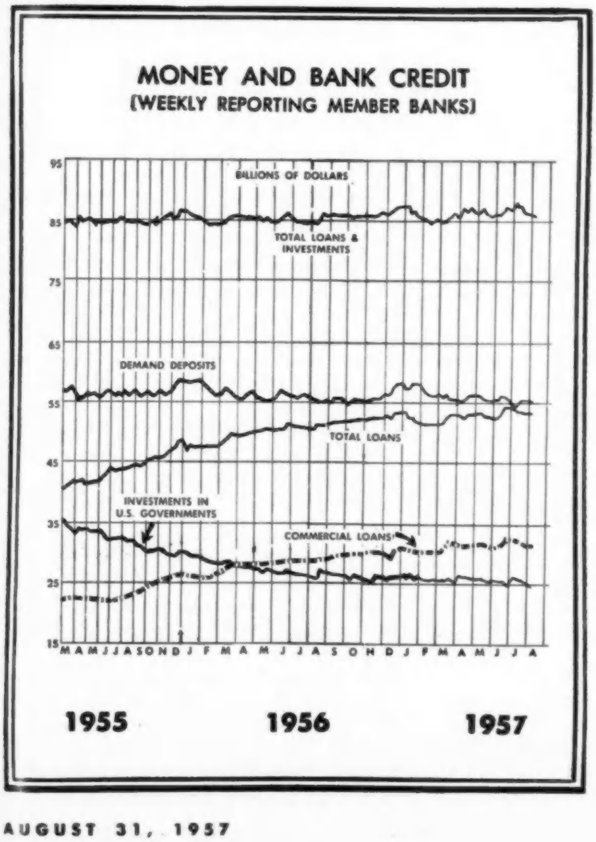
**INDUSTRY** — Production activity now about stable, but part of output is going into inventory rather than being consumed. Outlook for the remainder of 1957 is for moderate weakness later in the year.

**TRADE** — Latest figures point to some expansion of retail volume in soft-goods lines in the past two or three months. Part of the increase is in food, owing to higher prices. Hard goods volume continues slow. Outlook: soft goods continuing to do better than hard goods.

**MONEY AND CREDIT** — Past month has witnessed further rises in interest rates virtually across the board — dwarfing the ¼% increase in FHA mortgage rates that was supposed to channel new funds into this area. Low corporate liquidity combined with high borrowing costs may dampen inflationary pressures.

**COMMODITIES** — The broad wholesale price level rose in July, but largely because of seasonal strength in farm products, and the gradual effect of increases in steel, aluminum, and a few other basic commodities. The general commodity price level is still only stable. Outlook: stability to slight further weakness in most industrial commodities.




Among the statistics which the government subjected to revision during the summer was the crucial series on retail trade. The results of this revision were, at least on the surface, highly encouraging; what had appeared to be no better than puny gains and losses in retail volume from April into the summer have been converted into a persistent and rather notable uptrend.

Without deprecating the exhaustive statistical efforts of the Department of Commerce, which is responsible for the retail trade figures, one can nevertheless wonder whether the revision is as optimistic as it appears. The uptrend appears, first of all, in soft goods industries, and especially in food, where the obvious cause is higher retail prices for fresh produce resulting from drought-shrunken harvests. Paying more for lettuce is hardly an indication of an ebullient spending mood on the part of consumers. In the key apparel market, which is often a good guide to the state of consumer spending psychology, the increase has been very moderate; apart from food, most of the rise in soft goods volume has been in such miscellaneous categories as variety-store and service-station sales.

Secondly, there is some reason for thinking that the seasonal adjustments which are applied to retail sales figures in order to make them more comparable from month to month are no longer very reliable. For example, the retail trade totals, and particularly the department store sales indexes, have shown notable improvement in July in most of the past several years.

Finally, the failure of durable goods to share in the

*(Please turn to following page)*

# Essential Statistics

| THE MONTHLY TREND | Unit | Month | Latest Month | Previous Month | Year Ago |
|---|---|---|---|---|---|
| **INDUSTRIAL PRODUCTION* (FRB)** | 1947-'9-100 | July | 144 | 144 | 136 |
| Durable Goods Mfr. | 1947-'9-100 | July | 162 | 162 | 148 |
| Nondurable Goods Mfr. | 1947-'9-100 | July | 130 | 130 | 128 |
| Mining | 1947-'9-100 | July | 127 | 129 | 123 |
| **RETAIL SALES*** | $ Billions | July | 16.9 | 16.8 | 15.9 |
| Durable Goods | $ Billions | July | 5.7 | 5.8 | 5.5 |
| Nondurable Goods | $ Billions | July | 11.2 | 11.0 | 10.4 |
| Dep't Store Sales | 1947-'9-100 | July | 133 | 127 | 128 |
| **MANUFACTURERS'** | | | | | |
| New Orders—Total* | $ Billions | June | 27.2 | 28.4 | 27.9 |
| Durable Goods | $ Billions | June | 13.2 | 14.1 | 14.2 |
| Nondurable Goods | $ Billions | June | 14.0 | 14.3 | 13.7 |
| Shipments* | $ Billions | June | 28.4 | 28.6 | 27.7 |
| Durable Goods | $ Billions | June | 14.2 | 14.3 | 13.9 |
| Nondurable Goods | $ Billions | June | 14.2 | 14.3 | 13.8 |
| **BUSINESS INVENTORIES, END MO.*** | $ Billions | June | 90.8 | 90.6 | 85.6 |
| Manufacturers' | $ Billions | June | 54.0 | 53.9 | 49.1 |
| Wholesalers' | $ Billions | June | 12.7 | 12.7 | 12.7 |
| Retailers' | $ Billions | June | 24.1 | 23.9 | 23.8 |
| Dept. Store Stocks | 1947-'9-100 | June | 143 | 140 | 138 |
| **CONSTRUCTION, TOTAL** | $ Billions | June | 4.4 | 4.0 | 4.3 |
| Private | $ Billions | June | 3.0 | 2.8 | 3.0 |
| Residential | $ Billions | June | 1.5 | 1.4 | 1.7 |
| All Other | $ Billions | June | 1.5 | 1.4 | 1.3 |
| Housing Starts*—a | Thousands | June | 970 | 980 | 1,091 |
| Contract Awards, Residential—b | $ Millions | June | 1,155 | 1,297 | 1,202 |
| All Other—b | $ Millions | June | 2,088 | 2,103 | 1,745 |
| **EMPLOYMENT** | | | | | |
| Total Civilian | Millions | July | 67.2 | 66.5 | 66.7 |
| Non-Farm | Millions | July | 52.6 | 52.9 | 51.3 |
| Government | Millions | July | 7.2 | 7.3 | 7.0 |
| Trade | Millions | July | 11.5 | 11.5 | 11.2 |
| Factory | Millions | July | 12.8 | 13.0 | 12.5 |
| Hours Worked | Hours | July | 39.9 | 40.0 | 40.1 |
| Hourly Earnings | Dollars | July | 2.08 | 2.07 | 1.96 |
| Weekly Earnings | Dollars | July | 82.99 | 82.80 | 78.60 |
| **PERSONAL INCOME*** | $ Billions | July | 346 | 345 | 326 |
| Wages & Salaries | $ Billions | July | 241 | 240 | 226 |
| Proprietors' incomes | $ Billions | July | 51 | 51 | 50 |
| Interest & Dividends | $ Billions | July | 31 | 31 | 30 |
| Transfer Payments | $ Billions | July | 21 | 22 | 19 |
| Farm Income | $ Billions | July | 15 | 16 | 15 |
| **CONSUMER PRICES** | 1947-'9-100 | June | 120.2 | 119.6 | 116.2 |
| Food | 1947-'9-100 | June | 116.2 | 114.6 | 113.2 |
| Clothing | 1947-'9-100 | June | 106.6 | 106.5 | 104.8 |
| Housing | 1947-'9-100 | June | 125.5 | 125.3 | 121.4 |
| **MONEY & CREDIT** | | | | | |
| All Demand Deposits* | $ Billions | June | 107.2 | 106.6 | 106.7 |
| Bank Debits*—g | $ Billions | June | 77.7 | 85.4 | 75.7 |
| Business Loans Outstanding—c | $ Billions | June | 32.5 | 32.5 | 28.8 |
| Instalment Credit Extended* | $ Billions | June | 3.4 | 3.5 | 3.0 |
| Instalment Credit Repaid* | $ Billions | June | 3.3 | 3.3 | 3.0 |
| **FEDERAL GOVERNMENT** | | | | | |
| Budget Receipts | $ Billions | June | 11.6 | 5.3 | 11.6 |
| Budget Expenditures | $ Billions | June | 6.2 | 5.9 | 6.9 |
| Defense Expenditures | $ Billions | June | 3.8 | 3.9 | 4.6 |
| Surplus (Def) cum from 7/1 | $ Billions | June | 1.6 | (0.6) | 1.6 |

## PRESENT POSITION AND OUTLOOK

uptrend greatly reduces its significance. Typically, revivals of consumer buying in the postwar years have been characterized by sudden and pronounced expansions in the demand for durables, notably automobiles. Throughout the period for which the retail trade figures now show an increase, durables volume has evinced a slight but persistent weakness. **One can hardly make much point of the retail advance until it is turned into a fullscale expansion by a recovery in the critical consumer durables markets.**

* * *

**MONEY COSTS** — they are one of the key elements in the business news. Following several further advances in market rates on short-term paper, and further advances in the yields on public and private bonds, the Federal Reserve's Board of Governors approved a further elevation of the discount rate by nine of the 12 District banks. By late August, the rate structure had obviously taken another sharp turn toward tightness.

The effects of this new elevation of interest rates are still being hotly debated, in corporate offices as well as in Senate hearing rooms. One effect is, obviously, to wash out whatever benefits might have accrued to the housing market from the recently approved rise in FHA interest rates to 5¼%; that rise now appears to have very minimal significance for the housing market. The rise in the prime rate — affecting the nation's largest corporations, with very large inventory holdings — has probably had a further squeezing effect on inventory policy, and hence a further downward pressure on the prices of many raw commodities (including some commodities, such as nonferrous metals, which have already been squeezed very badly). And of course it has played a role in the statistical position of the stock market; **yields on equity securities are now being compared to considerably higher yields on corporate and municipal bonds.**

* * *

**ON PERSONAL INCOME** — between the first and second quarters of 1957, personal incomes, before taxes, increased by about $5 billion (annual rate). Most components of total personal income — wages and salaries, dividend income, rental and interest income, etc.—changed by about 1%, or a fraction of a percent. But so-called "transfer payments" — payments by government for social security veterans' benefits and similar

# and Trends

## QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

**In Billions of Dollars—Seasonally Adjusted, at Annual Rates**

| SERIES | 1957 II Quarter | 1957 I Quarter | 1956 IV Quarter | 1956 II Quarter |
|---|---|---|---|---|
| **GROSS NATIONAL PRODUCT** | 433.5(e) | 429.1 | 426.0 | 410.8 |
| Personal Consumption | 277.8(e) | 276.7 | 272.3 | 265.0 |
| Private Domestic Invest. | 64.8(e) | 62.7 | 68.5 | 65.3 |
| Net Foreign Investment | 3.5(e) | 4.1 | 2.4 | 1.2 |
| Government Purchases | 87.3(e) | 85.6 | 82.8 | 79.3 |
| Federal | 51.5(e) | 50.3 | 49.0 | 46.4 |
| State & Local | 35.8(e) | 35.3 | 33.9 | 32.9 |
| **PERSONAL INCOME** | 342.4(e) | 337.7 | 334.5 | 325.3 |
| Tax & Nontax Payments | 42.7(e) | 42.2 | 40.5 | 39.5 |
| Disposable Income | 299.7(e) | 295.5 | 294.0 | 285.8 |
| Consumption Expenditures | 277.8(e) | 276.7 | 272.3 | 265.0 |
| Personal Saving—d | 21.9(e) | 18.9 | 21.7 | 20.8 |
| **CORPORATE PRE-TAX PROFITS*** | | 43.9 | 45.6 | 42.4 |
| Corporate Taxes | | 22.4 | 23.3 | 21.6 |
| Corporate Net Profit | | 21.5 | 22.3 | 20.7 |
| Dividend Payments | | 12.4 | 11.5 | 12.0 |
| Retained Earnings | | 9.1 | 10.8 | 8.8 |
| **PLANT & EQUIPMENT OUTLAYS** | 37.3(e) | 36.9 | 36.5 | 34.5 |

## THE WEEKLY TREND

| | Unit | Week Ending | Latest Week | Previous Week | Year Ago |
|---|---|---|---|---|---|
| MWS Business Activity Index* | 1935-'9-100 | Aug. 10 | 288.4 | 289.8 | 263.7 |
| MWS Index—per capita* | 1935-'9-100 | Aug. 10 | 219.2 | 220.2 | 203.6 |
| Steel Production | % of Capacity | Aug. 17 | 81.9 | 79.8 | 87.5 |
| Auto and Truck Production | Thousands | Aug. 17 | 148 | 137 | 127 |
| Paperboard Production | Thousand Tons | Aug. 10 | 279 | 283 | 276 |
| Paperboard New Orders | Thousand Tons | Aug. 10 | 272 | 359 | 272 |
| Electric Power Output* | 1947-'49-100 | Aug. 10 | 225.9 | 234.8 | 217.7 |
| Freight Carloadings | Thousand Cars | Aug. 10 | 740 | 741 | 715 |
| Engineering Constr. Awards | $ Millions | Aug. 15 | 412 | 298 | 258 |
| Department Store Sales | 1947-'9-100 | Aug. 10 | 110 | 104 | 107 |
| Demand Deposits—c | $ Billions | Aug. 7 | 55.1 | 55.6 | 55.4 |
| Business Failures | Number | Aug. 10 | 265 | 281 | 229 |

## PRESENT POSITION AND OUTLOOK

programs — increased by about 8%. These payments are not made in return for labor or service rendered (that, in fact, is the definition of a transfer payment). **Transfer payments now amount to over $21 billion a year. Here's one place to look for the seeds of "creeping inflation".**

* * *

**AUTOS AGAIN** — six months ago, it was popular to say that even if auto sales stay no better than in 1956, it would be possible to produce more than in 1956, because inventories of cars were below their 1956 levels. The facts worked out pretty much as described: sales continued to cling to 1956 rates, while production climbed cheerfully ahead of 1956. Result: dealer stocks have now swelled to the highest post-war level on record for mid-summer, and dealers have close to a 45-day supply on hand at current sales rates. Unless sales volume picks up notably from its relatively slack pace of July and early August, **the clear-out of 1957 models to make way for the 1958's may be much more hectic than the industry wishes.** It all depends on sales rates now; it's already too late for producers to alter their production schedules for 1957 models, without prohibitive wastage of parts and materials already ordered.

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge, for 48 states. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

## THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

| No. of Issues (1925 Cl.—100) | 1957 Range High | 1957 Range Low | 1957 Aug. 9 | 1957 Aug. 16 |
|---|---|---|---|---|
| 300 Combined Average | 346.6 | 322.3 | 333.0 | 326.4 |
| 4 Agricultural Implements | 282.4 | 247.1 | 249.8 | 247.1 |
| 3 Air Cond. ('53 Cl.—100) | 122.8 | 106.8 | 112.5 | 106.8L |
| 9 Aircraft ('27 Cl.—100) | 1388.8 | 1010.7 | 1024.9 | 1010.7L |
| 7 Airlines ('27 Cl.—100) | 1002.5 | 711.8 | 731.8 | 711.8L |
| 4 Aluminum ('53 Cl.—100) | 464.5 | 375.8 | 392.7 | 380.1 |
| 6 Amusements | 172.6 | 148.8 | 154.8 | 148.8L |
| 9 Automobile Accessories | 384.4 | 341.7 | 370.1 | 363.0 |
| 6 Automobiles | 54.3 | 47.6 | 51.4 | 50.5 |
| 4 Baking ('26 Cl.—100) | 29.7 | 26.3 | 29.2 | 28.9 |
| 3 Business Machines | 1285.3 | 956.2 | 1172.1 | 1120.7 |
| 6 Chemicals | 652.3 | 556.6 | 604.4 | 592.4 |
| 4 Coal Mining | 25.1 | 22.0 | 22.3 | 22.0L |
| 4 Communications | 106.0 | 94.5 | 99.3 | 98.4 |
| 9 Construction | 126.8 | 118.1 | 121.8 | 119.3 |
| 7 Containers | 799.9 | 739.5 | 792.3 | 777.2 |
| 7 Copper Mining | 307.6 | 237.6 | 243.7 | 237.6L |
| 2 Dairy Products | 112.4 | 103.8 | 111.3 | 111.3 |
| 6 Department Stores | 89.2 | 80.1 | 86.7 | 85.9 |
| 5 Drugs-Eth. ('53 Cl.—100) | 259.2 | 175.2 | 237.3 | 231.8 |
| 6 Elec. Eqp. ('53 Cl.—100) | 244.4 | 215.0 | 230.8 | 224.0 |
| 2 Finance Companies | 584.5 | 525.0 | 552.3 | 546.9 |
| 6 Food Brands | 280.2 | 264.0 | 269.4 | 266.7 |
| 3 Food Stores | 183.9 | 153.8 | 183.9 | 182.2 |

| (Nov. 14, 1936 Cl.—100) | 1957 Range High | 1957 Range Low | 1957 Aug. 9 | 1957 Aug. 16 |
|---|---|---|---|---|
| 100 High Priced Stocks | 236.9 | 215.6 | 226.5 | 222.7 |
| 100 Low Priced Stocks | 415.8 | 383.1 | 390.4 | 383.1L |
| 4 Gold Mining | 726.2 | 627.2 | 653.6 | 660.2 |
| 4 Investment Trusts | 184.5 | 166.7 | 176.4 | 173.1 |
| 3 Liquor ('27 Cl.—100) | 1094.5 | 965.2 | 985.0 | 945.3 |
| 9 Machinery | 523.4 | 477.2 | 492.6 | 477.2 |
| 3 Mail Order | 174.6 | 157.5 | 162.6 | 160.9 |
| 4 Meat Packing | 142.6 | 117.4 | 125.8 | 121.6 |
| 5 Metal Fabr. ('53 Cl.—100) | 198.3 | 175.4 | 183.1 | 177.4 |
| 10 Metals, Miscellaneous | 420.9 | 376.4 | 396.6 | 400.7 |
| 4 Paper | 1060.1 | 904.2 | 935.4 | 914.6 |
| 22 Petroleum | 914.4 | 749.7 | 856.8 | 832.0 |
| 21 Public Utilities | 263.6 | 246.4 | 251.3 | 246.4L |
| 7 Railroad Equipment | 91.4 | 82.7 | 84.4 | 83.5 |
| 20 Railroads | 72.7 | 65.7 | 67.8 | 65.7 |
| 3 Soft Drinks | 509.8 | 445.5 | 471.2 | 467.0 |
| 12 Steel & Iron | 393.0 | 330.1 | 349.8 | 341.9 |
| 4 Sugar | 116.9 | 97.9 | 105.5 | 103.6 |
| 2 Sulphur | 924.7 | 815.4 | 865.8 | 840.6 |
| 11 Television ('27 Cl.—100) | 36.0 | 31.6 | 34.3 | 33.6 |
| 5 Textiles | 149.9 | 124.7 | 128.9 | 126.1 |
| 3 Tires & Rubber | 197.6 | 164.0 | 184.5 | 180.8 |
| 5 Tobacco | 91.3 | 87.0 | 91.3 | 91.3 |
| 2 Variety Stores | 273.7 | 255.6 | 258.2 | 255.6 |
| 15 Unclassif'd ('49 Cl.—100) | 168.9 | 153.8 | 164.4 | 161.4 |

L—New Low for 1957.

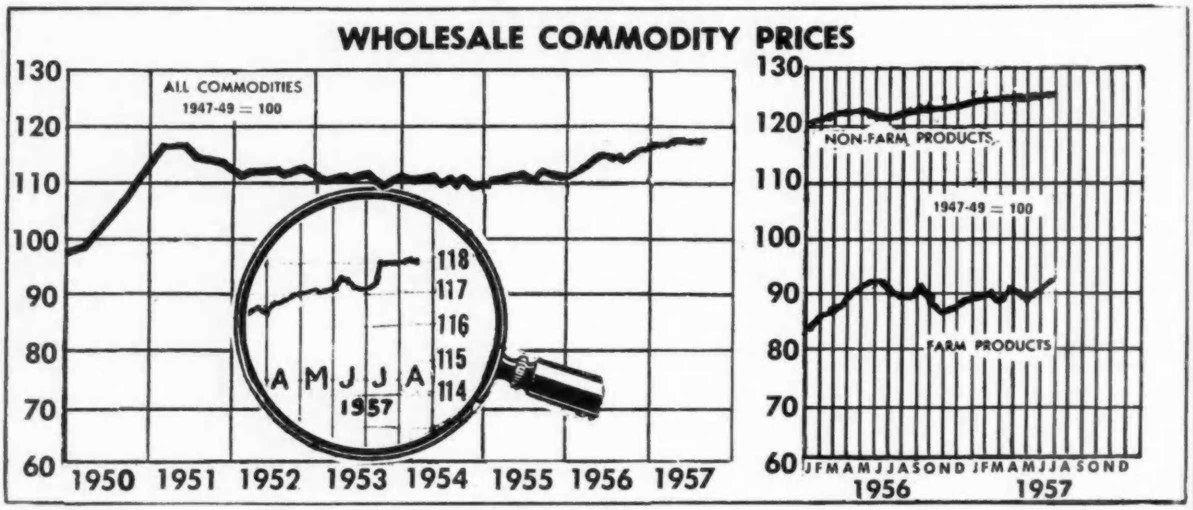
# Trend of Commodities

**SPOT MARKETS** — Sensitive commodities drifted lower in the first half of August and the Bureau of Labor Statistics' index of 22 such comodities lost 0.9% in the two weeks ending August 16. Weakness in metals was pronounced, with copper scrap, tin and scrap steel all behind minus signs. The metals component of the BLS index lost 1.8% during the period. Food, raw industrial materials and textiles also declined.

Meanwhile, the comprehensive weekly index of wholesale prics, compiled by BLS, rose 0.2% in the week ending August 6 and gave up half of this in the week ending August 13. So far higher interest rates and their restraining effects on inventory accumulation have depressed sensitive commodities but not the broad average, which may, however, be affected later on.

**FUTURES MARKETS** — The majority of commodity futures were lower in the two weeks ending August 16. The Dow-Jones Commodity Futures Index was bolstered by strength in cocoa and as a consequence lost only 0.15 points in the period.

Wheat Futures bucked the downtrend and the December option, for instance, rose 2½ cents, reaching its best price in approximately four months. Main impetus for the advance came from the Agriculture Department's estimate that this year's crop (on the basis of August 1 data) would total 915 million bushels, 25 million bushels less than it had forecast a month earlier. Last year, the total wheat crop amounted to 997 million bushels. At August 16 levels wheat prices were close to support levels, making the loan program less attractive.




| BLS PRICE INDEXES 1947-49—100 | Date | Latest Date | 2 Wks. Ago | 1 Yr. Ago | Dec. 6 1941 |
|---|---|---|---|---|---|
| All Commodities | Aug. 13 | 118.0 | 117.9 | 114.7 | 60.2 |
| Farm Products | Aug. 13 | 92.7 | 92.8 | 89.1 | 51.0 |
| Non-Farm Products | Aug. 13 | 125.6 | 125.5 | 122.5 | 67.0 |
| 22 Basic Commodities | Aug. 16 | 89.5 | 90.3 | 91.0 | 53.0 |
| 9 Foods | Aug. 16 | 85.6 | 86.4 | 83.6 | 46.5 |
| 13 Raw Ind'l. Materials | Aug. 16 | 92.2 | 92.9 | 96.4 | 58.3 |
| 5 Metals | Aug. 16 | 102.0 | 103.8 | 124.3 | 54.6 |
| 4 Textiles | Aug. 16 | 82.7 | 83.1 | 78.3 | 56.3 |

**MWS SPOT PRICE INDEX**

**14 RAW MATERIALS**

**1923-1925 AVERAGE—100**

**AUG. 26, 1939—63.0 Dec. 6, 1941—85.0**

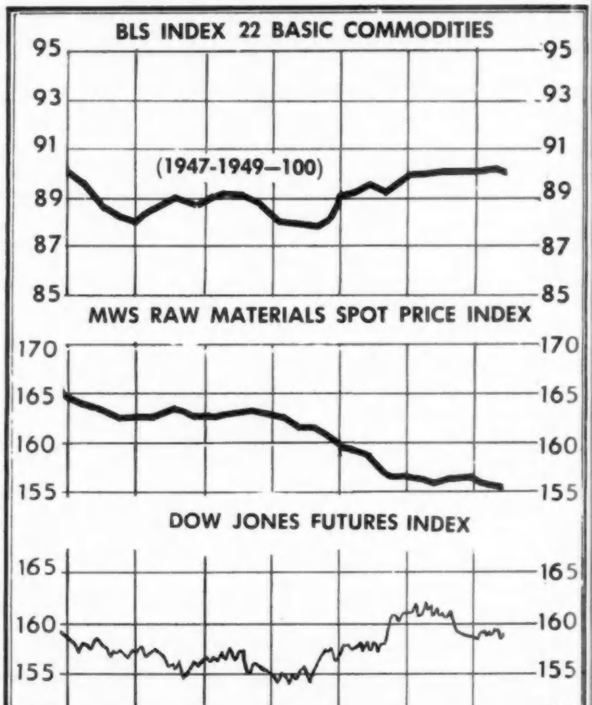
| | 1957 | 1956 | 1953 | 1951 | 1945 | 1941 |
|---|---|---|---|---|---|---|
| High of Year | 166.3 | 169.8 | 162.2 | 215.4 | 98.9 | 85.7 |
| Low of Year | 155.2 | 163.1 | 147.9 | 176.4 | 96.7 | 74.3 |
| Close of Year | | 165.5 | 152.1 | 180.8 | 98.5 | 83.5 |

**DOW-JONES FUTURES INDEX**

**12 COMMODITIES**

**AVERAGE 1924-1926—100**

| | 1957 | 1956 | 1953 | 1951 | 1945 | 1941 |
|---|---|---|---|---|---|---|
| High of Year | 163.4 | 166.7 | 166.5 | 214.5 | 106.4 | 84.6 |
| Low of Year | 154.5 | 149.8 | 153.8 | 174.8 | 93.9 | 55.5 |
| Close of Year | | 162.7 | 166.8 | 189.4 | 105.9 | 84.1 |



## The Awful Problem of Overlapping Taxes

(*Continued from page* 693)

national network. In the first Eisenhower year, grants to the states had reached $2.6 billion, amounting to one-fourth of the $10.5 billion states were raising for all local purposes. The number of functions into which Washington had stepped, grew to more than 40 types.

The same story is true of taxation. Prior to 1913 there was little tax duplication between Federal and state governments. The Federal Treasury relied on customs duties, a source of taxation ceded to the Federal government by the states in the U. S. Constitution. Today duplication is the rule. In 1913, state and local governments spent almost three times as much money as the Federal; today the positions are reversed.

**_Percentage Distribution of Federal, State, and Local Government Tax Receipts_[a]**

Selected Fiscal Years 1902-1956

| Year | Total | Federal | State | Local |
|---|---|---|---|---|
| 1902 | 100.0 | 37.5 | 11.3 | 51.2 |
| 1913 | 100.0 | 29.5 | 13.2 | 57.3 |
| 1922 | 100.0 | 47.7 | 12.3 | 40.0 |
| 1927 | 100.0 | 35.4 | 17.1 | 47.5 |
| 1932 | 100.0 | 22.7 | 23.7 | 53.6 |
| 1934 | 100.0 | 32.9 | 22.5 | 44.6 |
| 1936 | 100.0 | 36.4 | 25.0 | 38.6 |
| 1938 | 100.0 | 41.7 | 26.9 | 31.4 |
| 1940 | 100.0 | 39.4 | 29.1 | 31.5 |
| 1942 | 100.0 | 58.2 | 21.7 | 20.1 |
| 1944 | 100.0 | 80.6 | 10.4 | 9.0 |
| 1946 | 100.0 | 77.3 | 12.2 | 10.5 |
| 1948 | 100.0 | 73.6 | 14.3 | 12.1 |
| 1950 | 100.0 | 69.0 | 16.4 | 14.6 |
| 1952 | 100.0 | 75.5 | 13.3 | 11.2 |
| 1953 | 100.0 | 75.2 | 13.2 | 11.5 |
| 1954 | 100.0 | 74.3 | 13.6 | 12.1 |
| 1955 | 100.0 | 72.1 | 14.5 | 13.5 |
| 1956 | 100.0 | 72.3 | 14.7 | 13.0 |

(a) Detail will not necessarily add to totals because of rounding.

### Centralized Government Syphons Taxes

A glance at history supplies the reasons. Two world wars plus a major depression in one generation coupled with the long term worldwide drift toward big government and planned economy were the potent forces. Most Federal intrusion into local affairs had its genesis in the 1930's. The depression found states unprepared to discharge their responsibilities in the fields of welfare and health. Washington stepped in.

As central government grew bigger, more money was needed to meet the calls and states were elbowed out. The Hoover Commission summed it: "The national need for revenue has caused the Congress in some instances to utilize productive tax sources that could be used just as effectively by state or local governments. In this manner the circle widens. Under pressure to meet needs, Congress appropriates more for grants; the national tax base is expanded, which makes it more difficult for state and local governments to secure their own revenue, and hence stimulates pressure for more and more groups for more and more grants."

Forgotten was the admonition of Thomas Jefferson:

"To the united nation belongs our external and mutual relations; to each state severally, the care of our persons, our property, our reputation and religious freedom."

How far government has retreated from this Jeffersonian advice is depicted in the printed Budget for Fiscal Year 1958, submitted by President Eisenhower. Three pages of small type are required to set out the titles, and statistics, on more than $5 billion of Federal money recommended for transmittal to the states.

### Reallotment of Fields of Taxation

The U. S. Chamber of Commerce is plugging for a reallocation based on protracted studies and note-comparing with other research groups. There is basic agreement that the following Federal grant programs should continue:

- Highway grants
- Airport grants
- Civil Defense grants
- Fish and Wildlife Restoration grants
- Agricultural Experiment Station grants
- Agricultural Extension Service grants
- Research and Marketing Act of 1946 grants (cooperative marketing)
- State and private forestry operation grants

The Chamber proposes, again with evidence of some general indorsement, that the following fields be transferred to states and grants therefor ended:

- Public Assistance grants: Old-age assistance; aid to dependent children; aid to permanently and totally disabled; aid to the blind
- Children's Bureau grants
- Education grants
- Vocational Rehabilitation grants
- Unemployment compensation and employment service
- School lunch

The Chamber proposes that the U. S. Treasury abandon Federal taxes on the following items, leaving the field exclusively to the states:

- Admissions tax; club dues and initiation fees; local telephone service tax; coin-operated amusement and gaming devices; leases of safe deposit boxes; bowling alleys, pool tables, etc; unemployment tax; estate and gift tax. —END

A welder joins sections of pipe line which will carry Barinas crude to market. Unlike practice in this country, in Venezuela pipe line is left above ground.

# Making History in Venezuela

Deep in the heart of Venezuela, Sinclair's persistence in the search for oil is reaping its reward. That nation's most remote oil field, the Barinas field, will soon send its first oil to market. The volume will about double the crude output of Sinclair's subsidiary, Venezuelan Petroleum Company.

For almost 30 years, Sinclair scoured the Barinas Basin. Its first well in '31 was dry, but exploration continued. Four years ago a wildcat well found oil. Subsequent wells did, too — enough oil to make practical the longest pipe line yet built in Venezuela. Now near completion, this large-diameter line is being built in conjunction with another company and runs 212 miles from Barinas to historic Puerto Cabello on the Caribbean.

The Barinas field is an important addition to the growing list of U. S., Canadian and Venezuelan fields brought to life under Sinclair's expanded crude production program.

**SINCLAIR**

*A Great Name in Oil*

SINCLAIR OIL CORPORATION • 600 FIFTH AVENUE • NEW YORK 20, N. Y.

## What Second Quarter Earnings Reports Reveal

(*Continued from page* 699)

after higher margins, came to $1.00 per share in the second quarter, versus 85¢ last year.

**Pittston Company,** a holding company with diversified coal, gas and transportation interests, scored a sharp turnaround from last year's depressed second quarter. With start up costs of new mining operations out of the way earnings more than doubled, climbing to $1.72 per share from 84¢ in the same period a year ago, on a moderate sales advance. Further profit margin improvement is expected as the year progresses, so full year returns should surpass the $7.53 earned last year by a substantial margin.

### Resemblance to 1956

When the total picture is viewed, the business outlook is quite similar to the same period a year ago. Then, as now the major business worries were tight money and mounting operating costs—and the things people were watching most closely were inventory trends and the outlook for new model car sales in the fall.

The difference this year is not in the possibilities for a business pick up, but in the virtual certainty that the competitive struggle is becoming more acute. The business is still there, but fewer firms are getting it. For perhaps the first time in the post war era we are moving into a period in which management's foresight in introducing drastic cost cutting devices during the lush years, and its ingenuity in meeting competitive challenges will be the most important determinants of individual company performance.

—END

## Financial-Economic Trouble Spots Around the World

(*Continued from page* 705)

men in Buenos Aires are relieved that the most extreme elements did not achieve a clear-cut victory, they do not conceal their fear that the delegates to the new constitutional convention may seek popular favor by loading the new constitution with stringent provisions against foreign investors.

The effect of these policies on future Argentine balance of payments is easy to imagine. The Government's seizure of foreign-owned power facilities has created an investment climate which is hardly conducive to the healing flow of foreign capital resources to Argentina. Moreover, Buenos Aires continues to be vacillating and indecisive in setting an external value to the peso. As yet the Government has shown no disposition to devalue the peso from the official rate of 18 pesos to the dollar, although the free market rate has been around 43 to the dollar and would be much higher if it were not buttressed by a wall of import restrictions. The Government has preferred to adopt complicated export subsidies, import surcharges and other similar expedients in order to avoid full evaluation. It is considered unlikely that these stop-gap measures will prove effective substitutes for the much more forceful and basic revisions which are needed to correct the Argentine economy's fundamental imbalance.

### Japan Slashes Imports Amidst a Boom

The drain which has suddenly developed on Japan's gold and foreign exchange reserves has brought about a belated but still timely attempt to face up to economic realities after an uninterrupted period of prosperity. Scarcely a week has passed in the last several months without the adoption of new economic restraints by Tokyo. The official discount rate has been raised twice, bank credit has been effectively curbed, imports have been slashed and energetic measures have been enacted to slow down capital investment by private industry. These measures have been taken in the confident hope that they may lead to an improvement in the nation's balance of payments. The speed with which they were adopted and the vigor with which they are being enforced offer every encouragement that the hope is not misplaced.

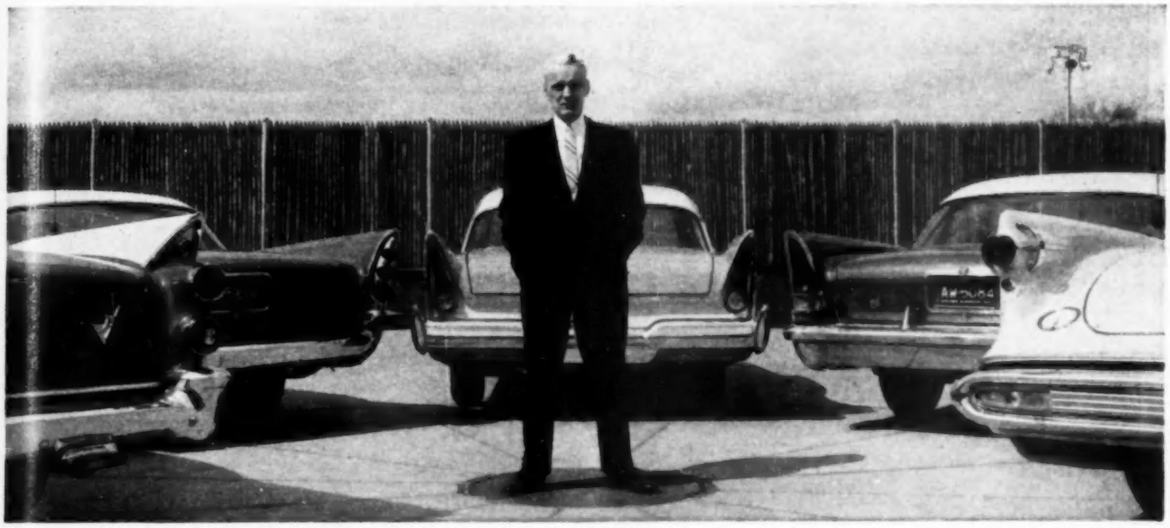
Japan's foreign exchange reserves declined by $560 million during the first half of this year, leaving only $870 million in the coffers. And even this low figure is deceptive inasmuch as it contains $270 million in the form of trade surplus accounts with Indonesia and South Korea which cannot easily be utilized. The sobering implications of this situation could not fail to prompt forceful remedial action. Along with import curbs, Japan has devised a comprehensive export promotion program which will be the principal instrument of Nippon's attempts to bolster her balance of payments position. Besides providing for easier credit terms and greater tax benefits, the program is designed specifically to stimulate exports of capital goods by offering liberal payment terms to foreign buyers.. A striking feature of the program is the suggestion that Tokyo supply long-term credits in Japanese yen to southeast Asian countries in order to help them buy Nipponese machinery. Tokyo also proposes to extend the system of financing barter deals with letters of credit in Japanese currency. Other provisions of the plan include simplification of export procedures, export credits to foreign countries and more public relations in overseas markets.

There is no doubt that these measures, vigorously pursued, will meet with considerable success and obviate the adoption of such extreme formulas as exchange depreciation. But Tokyo recognizes that these are merely temporary expedients and that a more comprehensive and fundamental approach to Japan's basic, long-term problems is required. To this end, Tokyo has formulated a new plan for Nipponese participation in the development of southeast Asia. Essentially, the scheme envisions the establishment of a new institution to distribute from $700 million to $800 million worth of funds each year among southeast Asian countries. Tokyo confidently expects that the bulk of these funds will be provided by Washington. But there is considerable doubt that Washington's response will be favorable in view of growing sentiment in U.S. Congress to curtail foreign aid. Moreover, the Asia Development Fund would be difficult to realize in any case because of political and economic conditions peculiar to southeast Asian nations. Countries in that area suffer from acute shortages of foreign currency. None of

(*Please turn to page* 734)

# CAPTAIN OF THE TEAM THAT WON—IN STYLE

**(AND WON CHEERS FROM THE BOARD OF PUBLIC OPINION)**



Contrary to what *some* people in Detroit think, the styling team at Chrysler Corporation does *not* have a crystal ball. It's simply that the forward-looking men who shape our cars know design and they know people—a combination that puts styling prediction on pretty solid ground.

Awhile back, Virgil Max Exner, above, Vice-President and Director of Styling, predicted that people would go for a dart or wedge design because it's *the* motion shape. It's *functional*. Jet planes use it—so do missiles and racing boats.

Last October, the five cars that bore the stamp of this conviction—having been exhaustively tested, probed and proved at the company—went before the highest tribunal, you, the Board of Public Opinion.

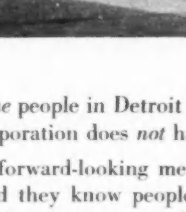
And then? And then *history* was made. People took in the look, lift and grace of this new shape of motion and loved it. They saw that the shape was built *in*, not added on. And they discovered that the engineering was every bit as daring, different and triumphant as the appearance. Torsion-Aire Ride . . . Pushbutton TorqueFlite transmission . . . Total-Contact brakes . . . were *real* news, *big* news! And so, shortly, were the sales figures.

Today, it is clear that *the switch is on* to the cars of The *Forward* Look. One out of every five cars purchased is a Plymouth, Dodge, De Soto, Chrysler or Imperial!

How did it all come about? Virgil Exner would be the first to tell you: there's a climate of vigorous thinking at Chrysler Corporation. It includes vastly expanding research, engineering and production facilities—a regrouping of manufacturing operations for more efficiency and cost control—as well as an aggressive marketing outlook.

In short, it's The *Forward* Look—and it points to progress that we hope will continue to win growing enthusiasm from you—the Board of Public Opinion.

Mr. Exner and his team of stylists were recently awarded the Industrial Designers' Institute gold medal for establishing continuity of design in the five lines of 1957 cars while maintaining separate design identity for each line.




**THE *FORWARD* LOOK**
**CHRYSLER CORPORATION**

**PLYMOUTH • DODGE • DE SOTO • CHRYSLER • IMPERIAL • DODGE TRUCKS**

# *WHAT MAKES CHESSIE'S RAILROAD* RO

Chessie
Ohio's ac
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**Che**

D ROW? *One of a series telling what Chesapeake and Ohio is doing to make this a bigger, better railroad.*

# How C&O got its trade mark

hessie first appeared in Chesapeake and hio's advertising 24 years ago, as a symbol f C&O's traditionally smooth track.

here *is* a difference in the way this railway s maintained. But it isn't done merely so that ullman passengers can "sleep like a kitten"®.

*e Abbott Tie Machine, developed by C&O person-l, automatically removes and replaces ties without sturbing adjacent roadbed, thus permitting trains to ntinue operation without delays.*

The high standard of C&O's programmed maintenance is good business for both the railroad and its shipping customers.

Over smooth track (new rail was laid on more than 2,100 miles of track within the past ten years) coal and merchandise freight trains roll faster, more safely, and require less power. This smooth, fast transportation is a plus for freight shippers. They know this and prefer C&O's dependable service.

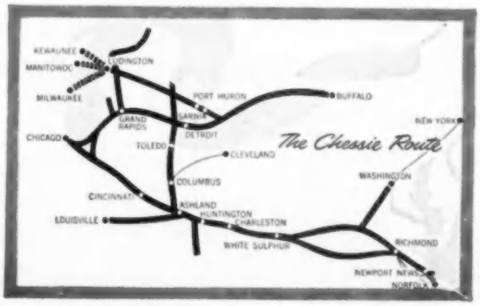
But a good roadbed is only one factor in providing better railroad service. In the past decade, C&O has invested more than a half billion dollars in new cars, new yards, new piers, new signal systems, new car building facilities and other improvements that contribute to more efficient operation and better transportation service for Chessie's customers.

With its thinking geared to tomorrow and the courage to translate vision into reality, Chessie's railway keeps growing and going!

Would you like a portfolio of pictures of Chessie and her family? Write to:

**hesapeake and Ohio Railway**

3807 TERMINAL TOWER, CLEVELAND 1, OHIO



## Financial-Economic Trouble Spots Around the World

(*Continued from page* 730)

them, therefore, would be in a position to invest foreign currency in the proposed fund. Subscriptions to the fund in local currencies would greatly limit the fund's activities. In addition, Burma and a few other nations have indicated that they will oppose the fund if membership requires restrictions on trade with China and Russia.

Japan's plans for organizing a far eastern trade area are moving ahead despite indications that the attitude of other nations in the region is lukewarm at best. Tokyo believes the scheme is needed to counteract the potential impact of the European Common Market on Asian trade. The project also has assumed a new urgency as the result of the decision of many nations to step up their trade with Communist China.

Several other moves are being charted in Tokyo to strengthen Japan's economic ties with the rest of Asia. Nippon's Foreign Office will bolster its diplomatic staff throughout the Far East with young technical experts. These will advise the senior Japanese diplomat in each country on the drafting and implementation of economic development schemes. They will also assist local industrialists and government officials in planning new projects. The object of this policy is to convince Asian nations that Japan is ready and able to help them improve their economies. Tokyo also proposes to foster the notion that Japan is best qualified to perform these services.

As an integral part of this broad plan, Japanese government subsidies to various technical cooperation and investment associations will be increased sharply this year. These private groups have been specifically created to assist foreign industries and governments with their development plans. Further, the number of Nipponese technicians from private firms going overseas for preliminary surveys and consultations is expected to skyrocket this year. Most of these services will be provided free. In addition, large numbers of Asian technicians will be invited to Japan for advanced training in their specialties. Tokyo's appropriations for this purpose will be increased by 20% in 1957.

The charter of the Nipponese Import-Export Bank also will be changed so as to permit the Bank to grant loans to Japanese companies furnishing technical assistance to overseas concerns. The Bank also will be permitted to furnish investment capital to foreign firms through Japanese enterprises. Authority also will be granted to the Bank to finance retail and wholesale businesses abroad. It may also provide working capital to overseas companies. This marks a radical departure from the previous practice of financing only exports of Nipponese machinery and equipment. If successful, this plan may well result in Tokyo's virtual dominance of Asian markets and economies, particularly in Burma, Indonesia and the Philippines.

—END



## Shippers and Shipbuilders Looking to 1958

(*Continued from page* 717)

enjoy a marked expansion in its business. A current development of significance has been the company's award of an $8 million contract for a 25,000 ton ore carrying vessel and a 20,000 ton bulk carrier for an undisclosed amount. Although the company has not reported for the fiscal year ended June 30, 1957, a preliminary letter to shareholders indicates that American Shipbuilding will show a substantial loss for that period due to difficulties encountered in performing on its Navy contracts. This is in sharp contrast to the previous fiscal year (ended June 30, 1956) when the company earned $5.62 a share. Thus, while this volatile stock sold off sharply, it is discounting an extraordinary loss not likely to recur. Over the longer term its prospects should be good.

**Bath Iron Works** which is primarily a builder of destroyers for the Navy, is a company that has not participated in the shipbuilding upsurge to the same extent as

he commercial builders. However, since the bulk of the World War II destroyer fleet is now obsolete or inadequate for modern warfare needs, Bath stands to benefit materially when new type destroyers are needed. Besides receiving its normal share of orders, the company should obtain additional ones since many of the other builders are concentrating their efforts on commercial business at present. The company now enjoys a good backlog, equal to $130 million earlier in the year, including about $35 million for two newly designed guided missile destroyers and $9.5 million for the design of these ships. Bath should have no trouble in getting steel since it is mainly doing defense work and, therefore, entitled to a high priority. Earnings this year may probably be around $6 a share versus $6.71 in 1956.

As the largest domestic shipbuilder, **Bethlehem Steel** has a decided competitive advantage over others in the industry because of its ability to tailor its steel production to the requirements of its shipyards. Also of interest, is the fact that Bethlehem provides its own engines for ship as well as steel. Bessie operates 12 yards with 42 ways located on both coasts. According to the latest data available, the company's shipbuilding division accounted for slightly over 10% of total net sales last year or about $235 million. Although it is impossible to estimate profits (since the company does not release this information), it is probable that they account for an even larger proportion. Order backlogs are also not reported by the company. However, a recent news story stated that the Bethlehem Steel shipbuilding division's backlog, including Navy orders, was over [5]00 million against $270 million in 1956. A further indication of the large volume of shipbuilding handled is found in Bethlehem's 1956 annual report where it is stated that there were orders on hand at the end of the year for [?] vessels aggregating more than [?]5 million tons. These included [?] ships for the U. S. Navy and [?] tankers ranging up to 100,000 deadweight tons.

**Newport News Shipbuilding and Dry Dock** is the second largest shipbuilder in the country. It is also one of the largest of the completely integrated companies be-

ing equipped with machine shops, forging facilities and iron, brass and steel foundries. Besides building various types of naval and merchant vessels, converting, repairing, reconditioning and rebuilding ships, it produces other products such as hydroelectric power plants, heavy machinery and castings, marine and special industrial paints and pressure vessels for such applications as petroleum refining and the high-potential field of atomic energy.

According to the company's last statement, its present backlog of around $362 million insures the shipyard of work through 1960. Significantly, a large percentage of the backlog is in commercial business, but it includes an order for a nuclear submarine for the Navy as well as the remainder of a $117 million contract for the supercarrier Ranger. Newport is further represented in the atomic energy field by a prototype of a nuclear-powered submarine which it is constructing in Idaho and should complete sometime next year. It does not appear likely that any more carriers such as the Forrestal and Ranger will be ordered, but the company has just received a tentative order for an 80,000 ton nuclear-powered carrier.

Earlier this year, the company was only able to get about 65% of its steel requirements, but at present, this situation has loosened up a bit and it is able to get more steel. Profits in the first six months of 1957 increased to $3.88 a share from $2.49 last year. This was due to better profit margins written into later contracts. As the year progresses, the company feels the outlook will further improve.

Another large factor in the industry is Merritt, Chapman & Scott's subsidiary, **New York Shipbuilding.** Merritt, Chapman (the industrial holding company of Louis Wolfson) sold part of its holdings in New York Ship several months ago. However, it still retains an 80% stock interest in the company. New York Shipbuilding's backlog earlier in the year was around $284 million which was a new high. This figure was exclusive of the $110 million bid submitted for construction of the sister ship to the S. S. United States as a replacement for the S. S. America, in spite of the fact that the company is in a favorable position to receive this contract when funds are appropriated. The company's largest single order of about $120 million, is for the construction of the aircraft carrier, Kitty Hawk, which should take about four years to build. A new graving or dry dock has been built (for about $10 million) specifically for the construction of the Kitty Hawk which will be available for other projects later on. The company also has orders for three guided missile destroyers, conversion of a cruiser, a submarine and six large tankers.

Although **Todd Shipyards** has been predominantly known as one of the world's largest ship repair organizations, it has recently announced plans to enter the ship construction field. Todd, which has leased a shipbuilding yard from the Government on the West Coast, is actively seeking private ship construction business. In view of the need for ships combined with the company's reputation in the field, it appears that substantial business should be forthcoming to Todd. The company does not release backlog figures, but its orders include an $18.5 million guided missile destroyer, a floating pile driver, a $10 million job for the Navy for conversion of a cargo-passenger ship to a troop carrier and three barges. It also has an order for the design and construction of twelve large dam gates for the Rocky Reach Dam. Earnings last year amounted to $18.46 a share against $7.07 in 1955.

**Prospects For Shipping Companies**

Generally speaking, the outlook for domestic shipping companies is fairly good. There has been, however, some weakness in the charter market. Recently, though, the Maritime Administration agreed to put back in its mothball fleet 20 vessels to relieve an oversupply of U. S. flag cargo ships. Chief contributors to the softening in demand for vessels, of course, was the reopening of the Suez Canal and dwindling foreign aid shipments. For the most part, it has been the independents who are suffering rather than the larger companies. However, business volume around the world is picking up, and shipping activities over the long run, should reflect this improving situation.

Another favorable factor f

the domestic shippers is that in order to maintain an adequate merchant fleet, the U. S. Government uses the subsidy system. Foreign flag carriers' costs are normally somewhat lower than those of American flag vessels. To make our vessels competitive, a subsidy is given on the difference between domestic operating costs and going world rates. The American flag carriers will also benefit from the Federal replacement program since they will receive more efficient vessels, thus enabling them to compete more economically with foreign shippers.

**Comments on Shippers**

While the U. S. shipping industry is subject to intense competition as well as sharp fluctuations in demand, some companies emerge as interesting speculations. One case in point, **American Export Lines,** has experienced sharp fluctuations in earnings in the past, but on average has done fairly well. Last year the company reported profits of $9.53 a share versus $3.82 in 1955 including credit adjustments of $0.66 and $1.23, respectively in these two years. This year earnings probably won't change too much. However, under the Merchant Marine Act of 1936, a shipping company that deposits its entire net profits into a capital reserve fund for the construction of new vessels is not required to pay taxes. American Export elected to do this in 1956. Whether the company will do this again in 1957 has not been decided as yet.

American Export operates between the U. S. Atlantic ports and the Mediterranean, Adriatic, Red and Black Seas area and India, Pakistan, Ceylon and Burma. It recently applied to the Maritime Board for permission to stop at ports on the Persian Gulf. Apparently, business to India is increasing as the company also asked the Board for additional subsidy to increase service to that country from a minimum 22 voyages and maximum 26 to a minimum 34 and a maximum of 50 voyages.

Formerly, one of the oldest operators in the intercoastal shipping business, **American Hawaiian** no longer owns or operates any ships. However, it is planning to enter this field as soon as it receives approval from the Maritime Administration. If its plans jell, the company could become important in the "roll-on, roll-off" shipping industry. The company is awaiting Maritime Board approval of its application to construct as many as six 25 knot or eight 18 knot ships. The company is negotiating with the major shipyards for construction of its vessels. Originally, Newport News offered the lowest bid on the ships, but New York Ship has now expressed a strong interest in getting this business. American Hawaiian may split up the contract in an effort to receive earlier delivery.

**Moore-McCormack's** scope of operations has changed this year with the acquisition of the Robin Line, (formerly owned by Seas Shipping Company). With this acquisition, Moore-McCormack will now serve South and East Africa as well as South America, Scandinavia and the Baltic Sea ports. The Robin Line gives the company added diversification to its growing shipping business. At present, Moore-McCormack's fleet consists of 43 cargo ships and a T-2 tanker with an aggregate capacity of about 472,000 tons. Moore also operates two passenger lines under charter from the Maritime Administration. These two ships, however, are expected to be replaced early next year by two 23-knot combination vessels with capacity for over 500 passengers and approximately 350,000 cubic feet of dry cargo space. While it is hard to estimate what earnings will be this year (first half was $1.26 a share versus $1.15) there is no doubt that the acquisition of the Robin Line enhances profit potentials.

The North Atlantic routes are among the most heavily traveled in the world and competition here is understandably keen, particularly in the luxury passenger fields. Leading contenders for this business are the British, French and Americans. Representing our interests, the **U. S. Lines** operates the S. S. United States, (the holder of the speed record between New York and Southampton) and the S. S. America (eventually to be replaced by a larger, more modern ship). U. S. Lines receives most of its business from the trans-Atlantic trade with other service to the Far East and Australia. The company in its replacement program is planning to build ships that could be used to carry cargo through the St.

Lawrence Seaway. Operating profit in the first half of 1957 rose to $3.21 a share from $2.70 last year.

While both shipbuilders and shipping companies can apparently look forward to smooth sailing over the horizon, there is the possibility of some rough weather. There is always the chance of cancellations in some shipbuilding contracts due to cutbacks in oil production and the availability of more tankers than necessary. Also, with money difficult to obtain, private shippers may be compelled to delay vessels.

The reactivation of many ships during the Suez Crises created an oversupply condition when this problem was finally settled. Because of this, charter rates are now weak and will probably remain so until this situation is digested.

While the outlook for the shipbuilding and shipping indstries is basically good, one must realize that investments in these fields have been characterized by wide swings in earnings and security prices. —END







## Transportation: Airlines and Buses

(*Continued from page* 718)

are seriously impaired.

### Short Term Profit Outlook Dim

In the light of the unfavorable C.A.B. ruling and the prospect of further deterioration in the load factor for major carriers, the outlook is not reassuring for profits over the near term. Moreover, the industry now is moving into the season of reduced travel, suggesting that revenues may be declining in the face of increasing costs for labor, replacement parts and other supplies – not to mention new airplanes that will be delivered in coming months. Industry observers estimate that in spite of plane retirements through the remainder of this year and 1958 it is quite possible that the potential passenger-carrying capacity may rise another 20 to 25 per cent. It seems unrealistic to think that available business will increase to that extent.

What the effect of jet transportation will be no one knows. Major air transport companies are planning on introduction of new type of planes late in 1959 or in 1960, probably on a limited basis at first. If the public considers the modern mode of travel as safe and comfortable as the piston-engine powered planes now in use, the transition may be accomplished with little or no interruption of the strong uptrend in passenger-miles served. There is no doubt, however, that if substantially increased rates are required to compensate for higher costs of jet equipment, resistance to plane travel may be encountered. Time will tell. More important questions deserve consideration in this discussion.

### Jet Transport Financing

Probably the most worrisome factor contributing to a cautious attitude toward shares of air transport companies is the problem of financing purchases of new jet transports to be delivered in another three or four years. Orders placed with leading aircraft makers for jet planes indicate that costs may range above $1.5 billion. This figure does not include expenditures being made by Capital Airlines to acquire British Viscount turbo-prop equipment now being installed. Other carriers may put into service turbo-prop planes of domestic manufacture. Extent of the problem is illustrated by the fact that equipment costs – not including training expenses–may run three to four times the net worth of domestic trunklines.

Larger carriers have completed arrangements for borrowing funds or for issuing additional securities. Projections of higher costs by the time of delivery a couple of years hence and growing indications of tightening in money rates appear to be accentuating the problem. Wage increases certain to be affected over the next year or two appear destined to raise estimated costs of new equipment and spare parts. In addition, training costs must be added before the transports can be put into regular service. Whether they can offer economies sufficient to offset these factors is a question.

In the comparatively recent past–that is, since Korea–airlines have been able to effect economies with new planes either in providing greater load factors or in speed. Thus the Douglas DC-6 offered economies that enabled users to counteract rising maintenance and operating costs. On the other hand, the successor to this plane, the DC-7 has proved more expensive than had been anticipated. Increased costs in operating this plane have been more noticeable because of the decline in the load factor on many routes where it has been put into service. In the case of Viscount turbo-props introduced by Capital

tal on its popular medium-distance flights, however, operating costs have been considerably reduced.

The second most serious problem confronting the industry—unsatisfactory payloads—is not readily soluble. Keen competition has invited increased travel on coach flights and on family-fare excursions with the result that narrow-profit margin business has increased out of proportion to regular service.

Equipment financing plans have been further complicated by the decision of the Office of Defense Mobilization to discontinue accelerated amortization allowances for commercial air transport companies in acquisition of new planes. Rising interest rates promise to add to the burden of the carriers as the time comes for taking down funds. Moreover, disposal of outmoded planes may not be so readily accomplished as had seemed possible a year or so ago. At that time liners being replaced could be sold at prices yielding profits above the figures at which depreciated equipment was carried. Now, surveys indicate that the market for used planes may not be as satisfactory as had been hoped.

Another factor handicapping some lines in disposing of planes was the decision of the C.A.B. that profits on equipment sold should be applied toward reduction of losses in operating routes where subsidies were claimed. In the case of Pan American World Airways, for example, which has operated under a subsidy arrangement in carrying mail on several overseas routes which because of limited traffic must be operated at a loss, the company sought to have profits on sale of old planes segregated and applied toward purchase of new liners. So long as regulatory authorities insist on utilization of plane sale profits to offset subsidy payments, management has indicated that it would defer equipment sales.

### Air Travel Outlook Is Good

If it were not for uncertainties involved in preparation for adoption of jet liners, the outlook would warrant a more hopeful attitude. General economic conditions, which go a long way toward determining first class air travel, are reasonably assuring. In addition, air travel fares are becoming increasingly competitive with rail charges and are encouraging a rapid shift in customer preferences. The strong appeal of economy in travel time has accounted in no small measure for a steady growth in air transport traffic.

Revenue passenger-miles likely to be served by the dozen domestic trunk airlines may range above 23 billion miles this year, against 21.7 billion for 1956, a new high record. Smaller carriers awarded new routes in the last two years are expected to contribute outstanding gains as new equipment is put into service.

Taking a brief look at several individual carriers as a means of examining specific issues, it may be noted that earnings have been sharply reduced by uneconomic operations and by rising labor and materials costs. One carrier estimated that the recent wage negotiations settlement added an indicated $1.7 million to labor expenses on an annual basis. United Air Lines has estimated its gasoline bill will be enlarged by almost $2.3 million this year if the same quantity used in 1956 is consumed this year.

**American Airlines** experienced a considerable decline in net profit in the first six months at 67 cents a share, compared with $1.22 for the first half of 1956. Full year's results may approximate $1.75 a share, against $2.40 a year ago. This would seem ample to warrant maintenance of the $1 dividend rate.

**Delta Air Lines,** one of the smaller units, has shown impressive gains in revenue in the last couple of years. Earnings for the fiscal year ended June 30 were handicapped by non-recurring expenses involved in breaking in the new Atlanta-New York route, which promises to become more profitable in the years ahead.

**United Air Lines** also experienced a downtrend in earnings in the first half, net income slipping back to 88 cents a share from $1.64 a year earlier. The full year's results may not exceed $3 a share, against $4.55 for 1956. The modest 50-cent dividend rate may be supplemented by a stock distribution.

**Western Air Lines** has outperformed its larger competitors in market popularity. Earnings have registered improvement in spite of rising costs and unusual expenses in starting new routes.

Full year's result may compare favorably with the $3.91 a share of 1956. The management has not decided on replacing its planes and has not made plans for financing such a program.

### Bus and Truck Companies

Other transportation systems reviewed in this discussion are far less important to the investor because they are represented by fewer equities. Local bus systems, represented by **National City Lines,** operating through subsidiaries in some 14 states, have been seriously handicapped by rising labor costs and competition from private automobiles. Prospect of further deterioration in earning power poses a threat to the company's indicated $2 dividend rate.

Over-the-highway bus travel, exemplified by **Greyhound Corp.,** appears to have been gaining ground with the introduction of more attractive equipment and with the benefit of intensified promotion. Greyhound also has moved into the rent-a-car line with a program of diversification that includes operation of motels and wayside inns. Management appears intent on obtaining higher returns on facilities operated. Heavy labor costs impose a serious handicap, but moderate improvement in earnings may be anticipated.

Another activity grouped in this category is highway freight movement, represented by **U. S. Freight,** the largest domestic freight forwarder. Intercity truck operations enable shippers to utilize its services for movement of goods from point of origin to point of destination. Earnings have shown steady improvement in recent years and are expected to reach a record high this year. Absence of debt and preferred stock heightens the above-average appeal of the shares.

Brief observations just presented are supplemented by the tabulation of pertinent statistics on earnings and capitalization accompanying this discussion. For the most part, the stocks in these groups have relatively less appeal at the moment than issues in other industries. —END

**Studies of Steels and Autos**
*See next issue.*

## First Hand Facts on Orders for Aircrafts and Missiles

(*Continued from page* 715)

ago. However, changes have raised this price to above eight million. USAF officers have asked for a new model J-57 engine with many titanium parts and this could raise the cost to above nine million. Other officials desire to add additional electronic equipment. A new wing section is being developed that will add an undisclosed amount to the price.

15 B-52's at over nine million each plus 15 of their K-135 aerial tankers at over 4 million add up to a sizable percentage of all Air Force expenditures.

The B-58 has twice the speed, about 50 per cent higher ceiling, weighs only one-third as much as the B-52 now being made. All top Air Force pilots want this latest model bomber and many would agree to reducing the B-52 schedule to 12 or even 10 per month to secure funds to have it.

They point out that because of its size and flight performance it is only one-twentieth as vulnerable as the B-52. Its light weight means that runways would not have to be rebuilt as is the case in many B-52 airbases.

Convair, a division of General Dynamics Corp., is building two new USAF fighters, the F-102 and the F-106, at their San Diego plant. They are prepared to go into quantity production at their Forth Worth factory on the B-58. General Dynamics has a healthy backlog of shipbuilding and other military business (see June 8th issue).

Boeing recently received a $139 million contract for the production of the Bomarc guided missile, a nuclear carrying weapon of over 150 miles range. It is a weapon which many believe will make the expensive Nike installations obsolete.

Reports are current that Boeing would like to take over the Martin Co. Martin's contracts for seaplanes, guided missiles (Matador, Lacrosse and Bullpup) and the ballistic missile Titan would fit well into Boeing's framework.

Lockheed attempted several months ago to close a consolidation. It was vigorously denied until after the negotiations failed.

Earnings and dividend forecasts for the individual companies are appended to the statistical table. —END

## What is Back of French-German Currency Moves?

(*Continued from page* 695)

that devaluation has not really taken place as yet. This would give him a chance to present France's case for a currency readjustment not as an isolated act of weakness but as part of a general negotiated readjustment of European currencies.

It is doubtful whether he can accomplish this nimble feat. Inside France, prices have so far not gone up as a result of the de facto devaluation but neither has the gold hidden in the mattresses of France, against just such an eventuality, been brought out. Apparently, most Frenchmen feel that the government's measures were only the *first* in a series to bring the franc more in line with the other currencies. It is true that the daily loss of $8 to $9 million in foreign exchange, due to speculation against the overvalued franc, has in the first few days following the devaluation turned into a daily surplus of some $3 million. But this could well be due to just a temporary decline of bear speculation against the franc. More important is the fact that black market franc quotations continue to be well above the new de facto rate of 420 francs to the dollar. Latest quotations in New York and Paris are as high as 445. Another sign of lack of confidence in the finality of the French "backdoor" devaluation is a very strong flight of short-term capital from French to U.S. and, particularly, Canadian securities.

All of this points to the likelihood that the recent French action is really only the beginning of a series of steps which may eventually bring about a basic realignment of European currencies. The logical stage for such action would be the forthcoming IMF meeting in Washington. Certainly, the French action will form a major topic of discussion there. And certainly, there will be plenty of behind-the-scene

pressure to get France to devaluate her currency officially by at least 20 percent and discard her new system of export subsidies and selective import restrictions.

But France too will have her say and it will not only be a defense of her recent actions but very likely also a request for an *upward revaluation of the German mark*. In this she is very likely to be joined by the majority of other European nations. For the conviction is rapidly gaining ground throughout Western European that the European economic disequilibrium is caused by two equally important factors: the over-evaluation of the French franc and the under-evaluation of the German mark. Pressure will therefore be brought not only on France but also on Germany to adjust her currency.

### The German Currency Situation

The German currency problem is based on almost exactly the opposite set of facts than the one under which France is currently laboring. For various reasons the mark is today the most undervalued of the world's major currencies. One reason is that its present parity with other currencies was fixed at a time when most of Germany's postwar reconstruction was still to come. Another reason is that Germany's relative freedom from defense responsibilities has allowed a very large capital program to be undertaken without serious inflation. The result of the undervaluation is that German exports enjoy a special advantage, and that imports to Germany tend to be comparatively expensive. In addition, German reserves have risen and are still rising in an almost spectacular way. The mark has become the hard currency inside Europe and the European Payments Union has been thrown off balance.

This becomes clear in the light of the fact that Germany's largest trading surplus is with the Western European countries which belong to the E.P.U. With the dollar area, on the other hand, Germany has a regular heavy deficit since she buys considerably more from the U.S., Canada and the Latin American dollar countries than she sells to them. However, she has no trouble financing her dollar imports by drawing on the dollar reserves of most of her European trading partners. This is accomplished through the mechanism of the E.P.U. which stipulates that 75 percent of all intra-European trading balances must be settled each month in gold or dollars. This means that each month Germany is raking in part of the dollar reserves of other European countries. In the first 7 months of 1957 she ran up a surplus with the EPU in the amount of $943 million. At the same time speculative movements of capital into Germany are further hastening that country's hoard of gold and dollars which now totals almost $4 billion. Thus the EPU has become the German dollar source par excellence.

### Will the Mark be Revalued?

The big question is, of course, how long this situation can continue and what can be done to change it. German economics minister Ludwig Erhard himself has said that "The appearance of the European nations at the German counter each month handing in, like good little boys, their gold and dollar payments" can not go on indefinitely. Herr Erhard must be credited with having done more than just pay lip service toward the elimination of Germany's strange case of Midas touch. He has reduced many import duties by 25 percent. He has abolished virtually all discrimination against dollar imports (except in the important agricultural sector). The mark has been made de facto convertible for both residents and non-residents. Germany has agreed to extend supplementary credits in the EPU and she has undertaken to deposit in sterling in London the whole of the $210 million needed to settle her postwar debts to the U.K., although she could have taken much longer to do so.

All these are positive measures. But do they go to the root of the matter, namely the restoration of equitable trade relations between Germany and her neighbors without which the Common Market or any other European scheme is doomed to failure? The question is of importance not only to the dollar-losing countries but also to Germany herself. For a persistence of the present situation may in time impose such pressure on other European currencies that discrimination against Germany might follow. Thus, the question of German currency revaluation is coming more and more into the foreground. It is increasingly felt that such a step is as much of a "must" as is a full-scale French devaluation. Hence the desire to tie the two together in an all-European currency readjustment which could possibly also affect such other currencies as the pound sterling, the Dutch guilder and the Italian lira.

### Pros and Cons of D-Mark Revaluation

The mechanics of a mark revaluation would be simple and some of its results are easy to foretell. By making the German currency worth more in terms of other currencies German exports would become more expensive while imports into Germany would become more competitive. Consequently, Germany's trading partners would buy less from her but sell more to her.

It is easy to see that such a tampering with Europe's strongest currency would please her inflation-ridden neighbors but would hardly be to the liking of most German business men who—in the recent absence of a rapidly expanding domestic market—have come to rely increasingly on their export business. Their argument, which has now become their slogan, is that a healthy man does not need to be cured. If Europe's other currencies are overvalued due to inflationary reasons, let them be adjusted downward because they are the sick ones, not the strong and expanding German currency. These same circles point to France rather than Germany as the main cause for Europe's internal trade imbalance. However, the fact is that a good many other countries with currencies much stronger than the franc are also increasing their deficit with Germany, as the following figures show:

*1956 Trade Deficit With Germany*
(in million marks)

| | |
|---|---|
| Switzerland | 631 |
| Belgium | 752 |
| Netherlands | 660 |
| Austria | 608 |
| Sweden | 613 |
| Norway | 458 |
| France | 337 |

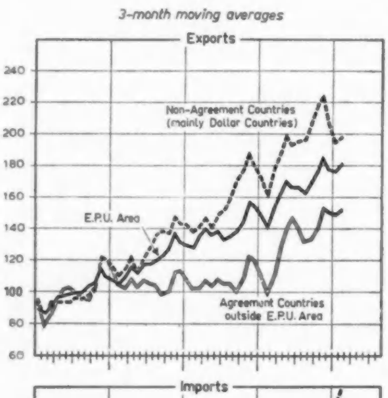
Actually, France's trade deficit with Germany is quite small in comparison with that of some of

the other countries and the inordinate German surplus would therefore exist regardless of the value of the French currency.

Another argument of the anti-revaluation group, namely that Germany needs her surplus with the E.P.U. in order to cover her rapidly growing deficit with the dollar area, does not cut much ice either with other European countries which have a dollar deficit of their own with North America.

On the other side of the fence in the great currency debate are those that advocate revaluation as Germany's contribution to the cause of European economic unity and those that advocate it as a preventative against domestic inflation. The first group probably includes both Erhard and Chancellor Adenauer, although neither of them could afford to admit it publicly. Both these statesmen are filled with a genuine sense of mission regarding the achievement of European unification. They know that suspicions against German economic policy still run high among Europeans who remember the policies of Hjalmar Schacht in the late thirties. They would therefore like to make a dramatic unequivocal gesture to alleviate all inuendos that Germany is once more out to dominate the economies of Europe.

EXPORTS AND IMPORTS, BY CURRENCY AREAS 1)
1953=100
*3-month moving averages*




1) Exports according to consumer countries; Imports according to producer countries.

The anti-inflation advocates of revaluation consist largely of the Social Democrats who feel that only through such a grand solution can Germany be saved from the inflationary fate of her neighbors. This group certainly has a point. The continuing piling up of money in payment of goods which are not consumed domestically but are sent abroad certainly increases the available liquid funds without a corresponding increase in the available goods. By all definitions this should result in an inflationary situation. That it has not done so already is the essence of the German "economic miracle".

### D-Mark Revaluation and the German Election

Thus, the revaluation problem is now bound up with internal German politics. If the Social Democrats win the elections to be held on September 15th—a possibility but not a probability—revaluation of the mark is definitely in the cards. If the Adenauer party wins it is less likely but still a possibility, notwithstanding minister Erhard's recent categorical denial of it. —END

## Special Mid-Year Re-appraisal of the Spectacular Oil Industry

(*Continued from page* 711)

experience over the years in dealing with the near eastern mentality—and if the current troubles are important, they are in essence no more significant than the whole history of difficulties which the oil industry has been surmounting in the area since it first went in there. The notable exception is the pressure from the Soviet Union to enhance its own influence among the nations involved.

For the balance of this year, then, the oil companies will have tougher sledding than they did in the first half, both in terms of concrete earning and in terms of emotional upset in connection with their holdings in the middle east. Until inventories are brought into line performance cannot match the levels of the first quarter, although there seems no reason to suppose operations will fall below the level that prevailed at the end of the second quarter. Third and fourth quarter comparisons may not be quite as favorable as the first two periods, but on balance full year results should better the earnings performance of 1956.

Certainly for the future the picture is as bright as it ever was. As difficult as it is for the industry to maintain its supply-demand balance on a day to day basis, current supply is considerably below readily anticipated demand in the decade of the sixties and ridiculously under projected demand well into 1975. Furthermore, it is entirely conceivable that current estimates of future demand may be grossly understated, since the advent of atomic energy in many countries which up to now have been power poor could provide a stimulant for an unexpected level of oil consumption. Statistical studies indicate that as the use of electricity increases so does the use of petroleum products. Therefore it is probable that the industry will have to run even faster than it is doing now to keep up with rapidly developing new demand.

Following are comprehensive comments, and dividend forecasts, on thirty important domestic and international firms.

### Comments on The Oil Companies

***Following are comments on the companies appearing in the tables on pages 710 and 711.***

For explanation of ratings on individual companies, see note at end of comments on page 746.

**Amerada:** The company has a major position in the Williston Basin area, and holds leases covering approximately 125,000 acres. A recent discovery in Sheridan County, Montana may prove to be one of the most significant finds of recent years in this area. Extensive leases, totalling 6.2 million acres are held elsewhere in the United States. The company also has a good land position in Canada and its production here is growing at a rapid rate. Finances are extremely strong. Another important asset is the ownership of 489,000 shares of Louisiana Land & Exploration Co. common stock. Dividends tends to be moderate, but a good rate of earnings growth should result in some improvement in the cash pay-out. B1

**Atlantic Refining:** In recent years, the company has placed heavy emphasis on achieving a better balance in its ratio of crude production to refinery runs. This effort is reflected in a

aggressive program involving acquisition and exploration in the United States, Canada and South America. Reserves of crude oil are large, equalling 61 barrels per share of common. Because the company's marketing activities are confined to the eastern seaboard of the United States, it constantly faces severe competition. However, the fact that Atlantic has moved so constructively to improve, by building up production, combined with its forefront position within a sound growth industry, the investment worth of its common stock over the long term should be enhanced. B2

**Cities Service:** The company, jointly with Richfield Oil, recently announced the discovery of two wells capable of producing 2,000 barrels daily in Dhofar. Cities Service owns a concession covering approximately 32,000 square miles in this area. The company is also aggressively pursuing its exploration activities elsewhere and is presently undergoing a 30 million dollar expansion in Canada. The company's diversified activities also include the refining and marketing of petroleum products and the manufacture of petro-chemicals. In view of the substantial earnings made in recent years, there is a good prospect of a betterment in the present $2.40 dividend rate. The stock offers excellent value for long term capital appreciation. B1

**Continental Oil:** Although operations are fully integrated, the company is in the enviable position of having crude production in excess of its refinery requirements. Crude production, which averaged 137,672 barrels daily in 1956, has been growing at a rapid rate. While Continental has extensive land holdings, approximating 7.9 million net domestic acres, its most promising areas are in the Offshore, Gulf of Mexico and the Rocky Mountains. A 75% interest in the Hudson's Bay Oil & Gas Co. provides the company with an important stake in Canada's rapidly growing oil industry. Continental operates 7 refineries with a daily through-put capacity in excess of 141,000 barrels. Petroleum products are sold principally in the Midwest, Southwest and Rocky Mountain states. Continental follows extremely conservative accounting practices which tend to understate earnings. Because of its excellent record and management, this issue tends to sell relative high to earnings. Despite this, the long term outlook for these shares is impressive and holdings are justified. A1

**Creole Petroleum:** The company is Venezuela's largest oil producer, with average daily production in excess of 1 million barrels. Other activities include refining, and operation of transportation facilities. Creole is the largest holder of acreage in Lake Maracaibo, Venezuela's most prolific oil area. As an important Jersey subsidiary, 95% owned, the company can be expected to participate in the growth of world oil. B1

**Getty Oil:** As both a holding and operating company, Getty Oil offers a broad opportunity in the fortunes of the oil industry. Important holdings include 1,716,831 shares of Tidewater Oil; 1,936,824 shares of Mission Corp. and 2,087,467 shares of Mission Development Company. The company's most important oil activity is its half-interest in the Saudi-Arabia-Kuwait Neutral Zone. Although Oil was discovered as recently as in early 1953, it is currently believed that Getty's reserves in this area may total as much as 5 billion barrels. In addition to oil, Getty has acquired real estate (it owns the Hotel Pierre in New York City) as well as manufacturing subsidiaries. Because of its rather unorthodox approach, the risks in this situation tend to be large. However, on the basis of results achieved, long term appreciation prospects appear to be speculatively favorable. Due to large financial requirements, no resumption in the cash dividend is anticipated. The Company should, however, continue to pay stock dividends. C2

**Gulf Oil:** A 50% ownership in the Kuwait oil concession, makes the Company one of the largest producers of crude in the Middle East. The control of British American Oil Company which operates in Canada, gives Gulf a major position in that country. Mene Grande Oil, another subsidiary, is Venezuela's third ranking producer of crude oil. Although Gulf had been tremendously successful in its operations abroad, its domestic activities showed no appreciable growth. Recently, however, management has concentrated its efforts on correcting this situation. Results so far have been excellent. Dividends tend to be extremely conservative. However, with earnings rising at a rapid pace, some improvement appears likely. Some stock dividend has been paid in each of the past 5 year. A1

**Humble Oil:** A major subsidiary of Standard Oil of N. J. (87.6% owned) Humble Oil is the nation's largest producer of crude oil. Reserves, which are predominantly in Texas, exceed 3 billion barrels. Natural gas interests are also substantial and reserves approximate 16 trillion cubic feet. In 1956, the company's net crude production totalled 371,000 barrels daily. Although activities of Humble are confined exclusively to the United States, extensive land holdings (over 15 million net acres) assures it of continued success in discovering new reserves. In recent years, Humble's record has about kept pace with the industry. A restrictive situation in its growth, however, is the fact that a major portion of Humble's oil are in Texas where an excess of crude oil supplies has resulted in strengent cutbacks in production. Ultimately, the ownership of these large reserves should accrue to the shareholder's benefit. A2

**Imperial Oil:** The Company is another important Jersey subsidiary and is the leading organization in Canada's booming petroleum industry. Imperial is Canada's largest refiner (operating 9 plants which in 1956 produced over 100 million barrels of products) and marketer. Its crude production has grown at a rapid rate, amounting to 38 million barrels last year, equal to 37% of its refinery needs. Land holdings are tremendous, totalling some 22.9 million acres. Crude oil reserves are better than 700 million barrels while net gas reserves now approximate 1.5 trillion cubic feet. A one-third interest is held in Inter-Provincial Pipeline as well as a small interest in Trans-Mountain. Because of their outstanding growth prospects, the market places a premium on the value of these shares. However, over the longer term, the patient investor should be well rewarded. A1

**Kerr-McGee Oil:** Aggressively managed, this medium-sized integrated Company is making rapid strides in all segments of the petroleum industry. Of particular import to the company is its large interest in the offshore Gulf area, partially through the ownership of leases and partially through its contract drilling business. Although a relative newcomer to refining, Kerr-McGee now operates three plants with a combined capacity of 44,500 barrels daily. The Company also has the distinction of being one of the nation's largest owners of uranium ore reserves, through its 51% interest in Kermac Nuclear Fuels. It has been estimated that Kermac has proven up some 40 million tons of minable uranium ore, with another 9 million tons probable. While the stock sells quite high in relation to its near-term earning prospects, its broad stake in the rapidly growing energy field assures it of continued growth. B1

**Ohio Oil:** The Company is well situated in that its crude production is more than double its refinery requirements. During 1956, net crude production of Ohio equalled 35.9 million barrels, which compared with refinery throughput of 15.5 million barrels. The company's reserves are large, totalling 681 million barrels. In recent years, a more aggressive exploration program has been undertaken, with interests acquired in Canada, Somalia, British Somaliland, Egypt and Lybia, and applications having been made in Venezuela and Guatemala. While the company's growth has not been impressive, the large values behind each share of stock should prove beneficial over the longer term. B2

**Phillips Petroleum:** Phillips Petroleum is a highly diversified integrated oil company and one of the leaders in the field of natural gas. The company has also attained a forefront position in the field of petro-chemicals. Recently Phillips has become more aggressive in its exploration activities and is venturing abroad to find new reserves. The company has a 33.54% ownership of American Independence Oil, which has a half interest in the Saudi Arab-Kuwait neutral zone. Phillips is also becoming active in Alaska and Venezuela. In recent years, earnings on the common stock have held back (due to large financing through convertible bond issues). While near term results do not appear dynamic, growth prospects should be favorable over the longer term. B2

**Plymouth Oil:** The Company is one of the smaller integrated units in the industry with crude production approximating 6 million barrels and refinery throughput of 11 million barrels. No significant revenue or earnings trend has been discernible during the past several years; a factor which probably accounts for the limited price appreciation the shares afford. C1

**Pure Oil:** The Company is an important marketer, selling its products in 24 Middle West and Southern states. It operates 4 refineries which last year turned out 152,073 barrels of products daily. Crude oil and natural gas reserves are large, estimated at about 500 million barrels and 4 trillion cubic feet of gas respectively. For a number of years, the inability to show any significant growth trend has limited price appreciation in these shares. More recently, however, earnings have advanced favorably. This, combined with the large reserves of oil, add good speculative possibilities to this issue. C1

**Richfield Oil:** The company is one of the West coast's leading integrated oil organizations. Its refinery throughput of 122,000 barrels daily in 1956 was slightly more than double crude oil production of 57,000 barrels daily. Recently, Richfield has been in the limelight as a result of its participation in two important discoveries. The company has a half interest with Cities Service in the Dhofar concession where two wells producing 2,000 barrels a day were discovered. In addition, the company has announced an oil discovery in Alaska. This latter find could be of extreme significance since the area is readily accessible to the crude-deficient West coast market. Cities Service owns 1,257,977 shares (31.4%) and Sinclair owns 1,223,581 shares (30.6%) of Richfield's outstanding common stock. Dividends, which average about 50% of earnings, provide an attractive yield. However, no increase is anticipated in the present $3.50 annual rate. B1

**Shell Oil:** The company's record has been one of the best in the industry during recent years. Shell has consistently placed its emphasis on the development of crude reserves and it now ranks third in production in the United States. Shell is also an important refiner and marketer of petroleum products. The company also ranks high as a producer of petrochemicals. Earnings continue to reflect these developments as evidenced by the fact that profits in 1956 were more than 4 times the amount reported in 1946. Sixty-five per cent of the stock is owned by the Royal Dutch Shell group. For investment purposes this stock has outstanding merit. A1

**Skelly Oil:** This is a medium-sized integrated company, with production in excess of refining requirements. 1956 crude production amounted to 26.1 million barrels which was roughly 1½ times refinery runs of 16.9 million barrels. Through the company's refining and marketing operations are relatively small, it has acquired a good reputation in the area it serves (princi

pally the mid-continent and southwest). Skelly has devoted its major efforts towards the building of production and reserves, and has achieved a large measure of success. Producing oil and gas properties amounted to 516,002 acres at the end of 1956, while non-producing leases totalled 4.4 million acres. Mission corp. (which in turn is controlled by Getty Oil) owns 59.4% of Skelly's outstanding stock. The company's dividend policy is extremely conservative, with the current rate being equal to only 30% of earnings. Some increase in the cash pay-out is indicated, in view of an improving earnings trend. Because of the low yield, these shares are best suited for long term appreciation. B1

**Sinclair Oil:** The company is actively engaged in all segments of the industry, including exploration, refining, transportation and marketing. In recent years, it has made significant gains in achieving a stronger balance of operations through its emphasis on obtaining increased crude production. Further gains are anticipated this year since the company is completing a large pipeline to its substantial reserves in the Barinas area in Venezuela. Sinclair holds an extensive land position, in the U. S. and Canada, approximately 9.5 million acres. Crude oil reserves are large totaling about 675 million barrels. An additional 100 million barrels of oil reserves are owned in Venezuela. In its marketing operations, the company follows a policy of concentrating these activities in areas sufficiently served by its refineries, pipelines and terminals. Although the issuance of additional common shares through conversion of senior securities has prevented share earnings from fully reflecting the gains made in operations, future growth promises to be of sufficient magnitude to offset this factor. While no increase is envisioned on the present dividend rate, it is worth noting that at current prices an attractive yield is obtained. B1

**Seaboard Oil Company:** Activities are confined exclusively to the exploration and production of crude oil and natural gas. Seaboard's record of growth has been outstanding, which is reflected in a rising revenue and earnings trend. Current crude production is at an annual rate of approximately 15 million barrels. In addition to large domestic lease holdings, Seaboard has a well entrenched position in Canada. Of particular import in this connection is its ownership of 14,400 acres of leases in the highly prolific Pemabian field. The company is also interested in Venezuelan oil possibilities and has acquired concession in partnership with others, covering 27,000 acres in Lake Maricaibo. A joint concession is also held in Turkey. Conservative accounting practices result in an understatement of earnings. Approximately 32% of the stock is owned by Texas Company. A1

**Socony Mobil:** The company ranks as one of the leading factors in the petroleum business, both in this country and abroad. Its fully integrated operations encompass production, transportation, refining and marketing. Crude reserves are substantial, numbering approximately 1,383 million barrels in the United States and 6,782 million barrels abroad. The company operates twelve refineries and its products are marketed extensively throughout the United States and the rest of the Free world. The sale of additional common stock a few months ago will restrict the growth in earnings this year. However, over the longer term this issue offers above average growth prospects. A1

**Standard Oil of California:** This company is one of the nation's leading international oils with operations encompassing the free world. Approximately 60% of earnings is derived from domestic and other Western Hemisphere operations. The balance of profits come from the Eastern Hemisphere. Important Eastern Hemisphere interests include a 50% ownership in the Bahrein-Caltex group and a 30% interest in the Arabian-American Oil Company. Western Hemisphere production in 1956 totalled 143.8 million barrels. While the company's principal activities are concentrated in the United States, operations are also carried on in Canada and Venezuela. These are relatively small compared to the domestic operations. During 1956 total Western Hemisphere production amounted to 144.9 million barrels. Refining and marketing activities are primarily concentrated on the west coast, where the company is the largest distributor of petroleum products. In line with the performance of other international oils, the growth of the company's revenues and earnings hace been good. In addition, the company has been quite liberal in its dividend policy, having given some increase in each of the past five years. A1

**Standard Oil Company of Indiana:** The company is the largest refiner and marketer of petroleum products in the Mid-Continent area. In 1956 the company sold a total of 242 million barrels of petroleum products. Crude oil production approximates 300 thousand barrels daily. Natural gas sales are in excess of 1 billion cubic feet. The company's reserves are substantial, crude oil being in excess of 2 billion barrels and natural gas over 11 trillion cubic feet. In recent years, Indiana has been attempting to broaden its exploratory activities (which heretofore has been confined to the United States) and important concessions have been obtained in Cuba. The company is also negotiating for concessions in Arabia. At the end of 1956, 3,768,459 shares of Standard Oil of New Jersey stock were owned. Relative to other large domestic oils Indiana's earnings growth has been below average. Principal factor in this regard has been the issuance of large amounts of convertible issues in recent years. Cash dividends are extremely conservative, however, the company does maintain a policy of paying out part of its holdings in Jersey each year to stockholders. While immediate results of Indiana are not expected to be particularly dynamic, over the longer term the company should grow in line with the industry. A1

**Standard Oil Company (New Jersey):** Primarily a holding company, Jersey owns stocks in a number of organizations engaged in various phases of the oil business throughout the world. Domestic operations are carried on through Humble Oil and Refining (87% owned); Carter Oil (100% owned) and Esso Standard Oil (100% owned). In Canada, the company is represented by Imperial Oil Ltd. (70% owned). In Venezuela and other South American countries, Jersey has Creole Petroleum (85% owned), the largest South American producing and refining company, as well as International Petroleums (83% owned), a major factor in Colombia, Peru and to a lesser extent in Venezuela. In the Middle East and Near East, Jersey has representation through Standard Vacuum Oil (50% owned), Arabian-American Oil and Trans-Arabian Pipeline, each 30% owned. The company also has marketing outlets in England and Continental Europe. During 1956, Jersey's total production amounted to 737 million barrels of which 159 million barrels were from domestic sources, 404 million barrels from other Western hemisphere areas and the balance, 173 million barrels from the Eastern hemisphere. In the same year, the company refined a total of 894 million barrels of petroleum products. Although Jersey is a worldwide organization, it is interesting to note that the major part of its operations are in the Western hemisphere, as evidenced by its large stake in the United States, South American and Canadian oil industry. Of total 1956 net income of $808 million, 27% was from domestic sources, 51% from other Western hemisphere operations and the balance from the Eastern hemisphere. A1

**Standard Oil of Ohio:** Although operations are fully integrated, major emphasis is placed on marketing. Ohio is one of the few in the industry which can boast sizable profits in its marketing activities. The company sells its products almost exclusively in the State of Ohio. Although there is no doubt that Sohio's position in Ohio is almost unchallengable, this is somewhat offset by the fact that the company cannot use its trademark in other areas. During 1956, the company's refinery throughout amounted to better than 51 million barrels. While the bulk of its capital expenditures are for refining and marketing facilities, production activities are also expanding. The desire to improve its crude output can be seen by the fact that Sohio currently provides about only 25% of its refinery requirements. Areas which may prove important in increasing the company's production include Offshore Louisiana where an interest is held in 37,000 acres and in Venezuela where a ¼ interest (with Pure, Signal and Hancock Oil) is held on 27,000 acres. Earlier this year management estimated earnings would be up 8 to 10% over 1956. However, an extended strike of the company's refineries should temper the results somewhat. There is no dividend increase envisioned on the common stock. B1

**Sun Oil:** The company has an enviable record in the marketing of petroleum products under the *SUNOCO* brandname. Principal marketing areas include the Atlantic seaboard, westward to Chicago and Michigan and part of Canada. Sun's two refineries in 1956 produced 95 million barrels of petroleum products. The company has been a leading factor in the development of the sale of selective grades of motor fuel at the service station. Unlike most companies which use a third pump, Sun has designed a unit which permits custom blending of five different grades of motor fuel. Sun is actively pursing an aggressive program of building its crude production and reserves. In addition to accelerating its leasing activities in the United States and Canada (where some 11.3 million acres are held) the company has established a foreign operations department to engage in oil exploration abroad. Important new concessions include leases on 676,000 acres in the Bahamas, a one-quarter interest in 480,000 acres in Colombia, as well as important concessions in Lake Maracaibo, Venezuela and Guatemala. The company's dividend policy is ultra-conservative as indicated by the fact that the cash pay-out in recent years has been less than 25% of net income. An offsetting factor is the company's policy of paying regular stock dividends. B2

**Sunray Mid-Continent Oil:** The merger of Sunray and Mid-Continent Oil companies has resulted in the creation of a well-balanced, integrated oil unit with activities concentrated in the mid-continent. Crude production, which approximated 83,000 barrels daily in 1956 is equal to roughly 83% of refinery runs (totalling 106,000 barrels daily last year). Domestic exploratory activities are concentrated in the Texas, Oklahoma Panhandle, New Mexico and Kansas. The company has an active secondary recovery program and at the end of 1956 operated 40 waterflood projects while participating in 23 others. In Canada, Sunray has a substantial interest (ranging from 12½% to 50%) in 7 gas fields in the Peace River area. In addition, it owns a substantial stock interest in West Coast Transmission Company. Petroleum products are marketed under the D-X brand name, through some 3,209 bulk and service stations in the midest. While the integration process of Sunray and Mid-Continent oil companies has yet to be digested, it is believed that, over the longer term, substantial benefits should accrue to common stockholders. The liberal dividend provides an attractive yield. B2

**Texas Company:** The Texas Company is the second largest producer of crude oil in the United States. During 1956, it produced a total of 126 million barrels of crude oil. At the end

of the year, the company had approximately 11.3 million acres under lease in the United States. Texas Company is also an important marketer, selling in 1956 a total of 268 million barrels of refined products. The company is unique in that it is the only domestic firm marketing its products in all of the 48 states under one brand name. Foreign operations are also important and subsidiaries are located in Colombia, Venezuela and Trinidad. The company is also active in Canada directly as well as through its 65% interest in McCall-Frontenac Oil and 75% in Regent Oil Company Ltd. In the Eastern hemisphere, a strong position is held through a 30% interest in the Arabian American Oil Company, and a 50% interest in Caltex (jointly with Standard Oil of California). A well managed company, Texas enjoys a strong competitive position in the oil business and should continue to grow in line with the industry. A1

**Texas Gulf Producing:** A small sized producer of crude oil and natural gas, the company, in recent years, has enjoyed good success in its domestic exploration activities. Particularly important in this regard, was the discovery and development of the Headlee-Parks Ranch field in Midland and Ector counties, Texas. The company's crude production in 1956 totalled 4.9 million barrels and natural gas production amounted to 17 million M.C.F. Despite its small size, the company stepped up its exploration activities to include areas outside of the United States. In 1953 it entered Peru and acquired an interesting concession there. While some production is obtained, the inability to get to markets has restricted the development of these properties. More recently, attention has been drawn to this issue as a result of its 6 million acre concession in Libya. To help finance the cost of exploring this area, an agreement was entered into with W. R. Grace whereby Grace would pay $7½ million of a total of $10 million in expenditures planned for this area. The stock sells relatively high on the basis of near-term earning developments. C1

**Texas Pacific Coal & Oil:** The company is a small producer of crude oil and natural gas with activities centered in the state of Texas. Crude output in 1956 amounted to 7.5 million barrels and natural gas sales totalled 27 million M.C.F. Crude reserves are estimated at 109 million barrels and natural gas at 525 billion cubic feet. The company also owns the only known coal deposit in Texas, with reserves estimated at 127 million tons. Sinclair Oil in 1956 acquired 30% of Texas Pacific's outstanding stock for investment purposes. B1

**Tidewater Oil:** An integrated oil unit, the company's activities are centered on the Atlantic and Pacific coasts. A refinery at Avon, California has a throughput capacity of approximately 110,000 barrels daily. Plagued by large operating losses in its Bayonne refinery, the company scrapped these facilities and built a new plant at Delaware City, Delaware. This unit which went on stream in May of this year has a rated capacity of 130,000 barrels daily and is the largest refinery ever built at one time. Geared to operate on high-sulphur, low-gravity middle east crudes, Tidewater's Delaware refinery faces some immediate problems with the establishment of voluntary import restrictions, it will have to cut back some 59% in its proposed imports from the middle east. Because of this, operating profits this year may fall short of previous estimates. The company holds large reserves of crude oil which at the year-end 1956 were estimated at 560 million barrels. Natural gas reserves at this same time approximated 2.4 trillion cubic feet. For a company of its size, Tidewater has a small acreage position totalling 2.5 million acres. However, the record has been good when one considers the limited exposure of the company. While near-term results may not prove particularly dynamic, over the long run it is believed that Tidewater will be able to generate substantially larger earnings. No dividend has been paid on the common stocks since 1954, and none is expected in the near future. However, a 5% stock dividend has been paid in each of the past three years. B2

**Union Oil Company of California:** This is the west coast's second largest integrated oil company. Products are marketed in California, Washington and Oregon as well as in Montana, Wyoming, Utah and parts of Idaho and Nevada with total sales in excess of 58 million barrels. Union Oil's exploration activities are less restricted and substantial production is held in California, Texas, Oklahoma, Louisiana and the Rocky Mountain states. The company estimates its crude oil reserves to be approximately 495 million barrels and natural gas reserves to be in the area of 2.2 trillion cubic feet. Through a subsidiary, Brea Chemicals, the company is also an important manufacturer of ammonia and ammonia derivatives used in fertilizers. In addition, it has a 25% interest in Pima Mining Company which is engaged in the commercial production of copper concentrates in Arizona. Union is also active in shale oil having spent some $15 million on development of such projects. In 1956, $120 million of debentures were sold to Gulf Oil. These debentures are convertible at $70 per share for fiev years, then at higher prices. Although the company's earnings have not enjoyed any appreciable growth in recent years, it is believed that over the longer term a definite improvement should be shown. The present dividend rate provides an attractive yield on this issue. B1

*Ratings:—(A)—Best Grade. (B) Good Grade.*
*(C)—Speculative. (D)—Unattractive.*
*1—Improved earnings trend.*
*2—Sustained earnings trend.*
*3—Lower earnings trend.*

## For Profit and Income

(*Continued from page* 721)

are normally subject to below-average fluctuations. They include baking, finance companies, dairy products, packaged foods, electric utilities, bank stocks, food chains, variety stores, shoes, soaps and tobaccos; and, among the more cyclical groups, auto parts, department stores, rail equipments, sugar, tires and the long-depressed textiles.

### Good

Among individual stocks which are currently performing considerably better than the industrial list are: American Chicle, American Stores, American Agricultural Chemical, Chrysler, Hertz, Kroger, Lorillard, Reynolds Tobacco, National Biscuit, Raytheon, Sherwin-Williams and Union Tank Car.

### Poor

Up to this writing the following stocks have been performing significantly worse than the market: American Radiator, Alpha Portland Cement, American Broadcasting-Paramount, Babcock & Wilcox, Boston Edison, Bendix Aviation, Carrier, Crane, Briggs Mfg., Diamond Alkali, Filtrol, General Time, Granite City Steel, Interlake Iron, International Nickel, Joy Mfg., Kennecott, Lockheed, Phelps Dodge, Rayonier, Simmons, Standard Oil of Indiana, Thompson Products, Vanadium, Wheeling Steel, Sutherland Paper, and Woolworth.

—END

## As I See It!

(*Continued from page* 687)

at all for about 12 million employees. 26 weeks of payments averaging about $25 per week is a handy prop for helping workers over the rough hurdles between jobs, but it is certainly not one calculated to encourage career loafing.

In recent years we have been assuring ourselves that "built in" stabilizers would automatically prevent another serious depression. Prosperity has even been written into the law of the land. But the props have never been tested, and when looked at closely seem a little weak for a nation that is mortgaged to the hilt, up to its ears in installment debt, and has been living awfully high on the hog for a full decade or more. —END

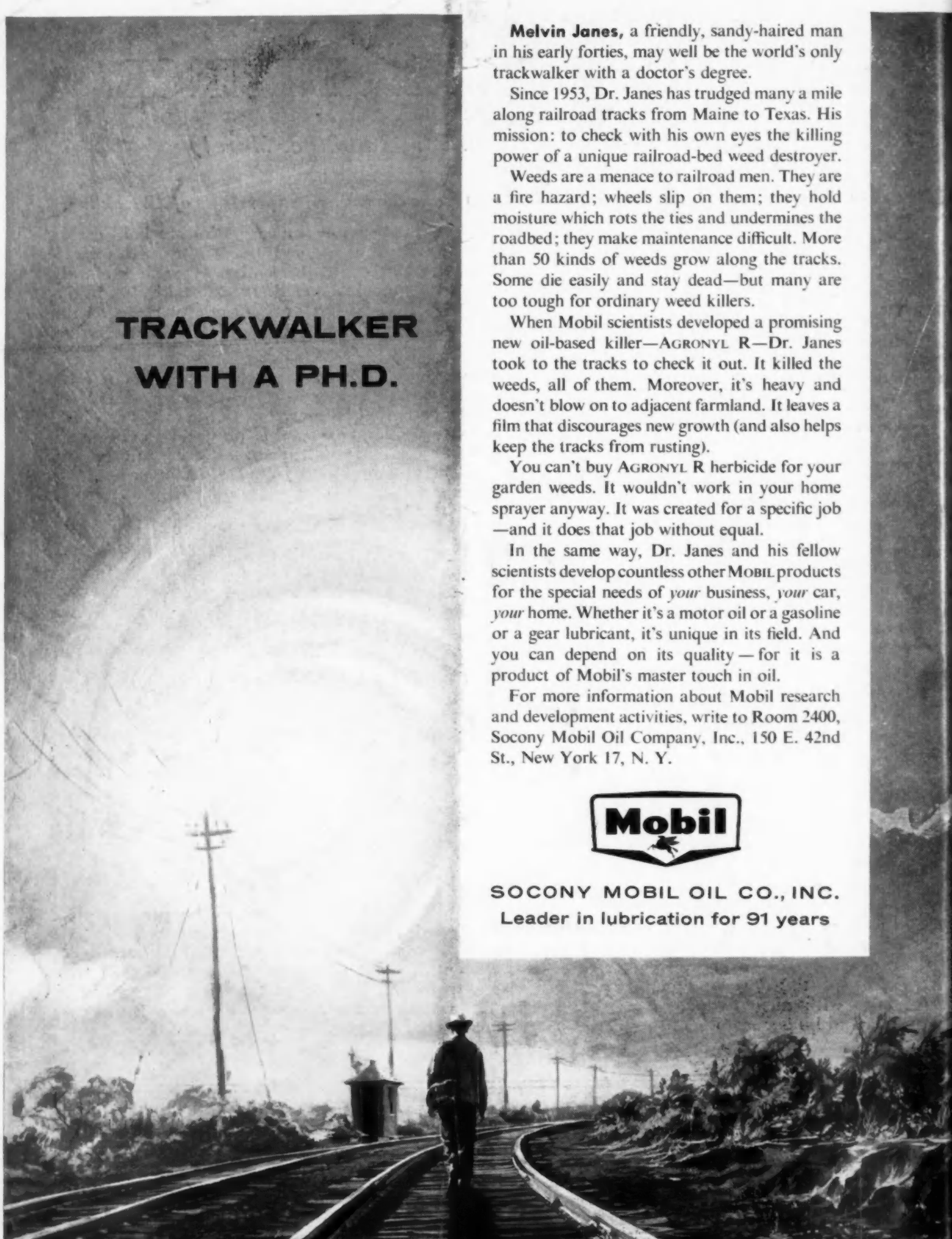
## Market Over the Next Fortnight?

(*Continued from page* 689)

and housing activity.

The production index (seasonally adjusted) was unchanged in July at 144, against peak of 147 last December. A range of 140-145 seems reasonable expectation for August to the year end. Retail inventories of automobiles are at a high level, well above a year ago. Housing starts show some nominal improvement. Total personal income has recorded a small further gain. There is no prospect of a significant rise in aggregate corporate profits, or for more than a 3% to 4% gain in total dividend payments. No change in our conservative policy is justifiable at this time.

—MONDAY, AUGUST 2



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Since 1953, Dr. Janes has trudged many a mile along railroad tracks from Maine to Texas. His mission: to check with his own eyes the killing power of a unique railroad-bed weed destroyer.

Weeds are a menace to railroad men. They are a fire hazard; wheels slip on them; they hold moisture which rots the ties and undermines the roadbed; they make maintenance difficult. More than 50 kinds of weeds grow along the tracks. Some die easily and stay dead—but many are too tough for ordinary weed killers.

When Mobil scientists developed a promising new oil-based killer—AGRONYL R—Dr. Janes took to the tracks to check it out. It killed the weeds, all of them. Moreover, it's heavy and doesn't blow on to adjacent farmland. It leaves a film that discourages new growth (and also helps keep the tracks from rusting).

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